

FY2009

COMPREHENSIVE ANNUAL FINANCIAL REPORT

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
A PENSION TRUST FUND OF THE STATE OF IOWA
FOR THE FISCAL YEAR ENDED JUNE 30, 2009



**COMPREHENSIVE ANNUAL FINANCIAL REPORT
OF THE IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
A PENSION TRUST FUND OF THE STATE OF IOWA
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

**PREPARED BY
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

DONNA M. MUELLER, CHIEF EXECUTIVE OFFICER

FOR MORE INFORMATION

**By mail**

P.O. Box 9117
Des Moines, IA 50306-9117

**In person**

7401 Register Drive
Des Moines, IA 50321
8 a.m.-4:30 p.m. Central Time
Monday-Friday

**Phone**

515-281-0020 or toll-free 1-800-622-3849
7:30 a.m.-5 p.m. Central Time
Monday-Friday

**E-mail**

info@ipers.org

**Web site**

www.ipers.org

**Fax**

515-281-0053

Fiscal Year 2009 Highlights

Membership:

Active Members	167,717
Retired Members*	89,852

Contributions:

Employee	\$270,934,593
Employer	415,324,133
Buy-Backs/Buy-Ins	9,300,671

Distributions:

Benefits Paid	\$1,183,118,816
Refunds Paid	34,337,453

Investments:

Net Investment and Securities Lending Loss	\$(3,863,760,600)
Investment Rate of Return	-16.27%

Funding:

Net Assets Held in Trust for Pension Benefits	\$17,974,040,651
Ratio of Actuarial Assets to Actuarial Liabilities	81.2%

*Unless specifically noted, references to retirees throughout this report include beneficiaries.



Table of Contents

Introduction	Pages 1-26
Professional Awards	3
Letter of Transmittal.....	4
Administration.....	15
Investment Board	17
Benefits Advisory Committee.....	20
Professional and Consulting Services.....	24
Investment Managers.....	26
 Financial.....	 Pages 27-66
Independent Auditor's Report	29
Management's Discussion and Analysis.....	31
Basic Financial Statements	36
Statement of Plan Net Assets	36
Statement of Changes in Plan Net Assets	37
Notes to Financial Statements.....	38
Required Supplementary Information	61
Schedule 1 – Schedule of Funding Progress	61
Schedule 2 – Schedule of Employer Contributions	62
Other Supplementary Information	63
Schedule 1 – Investment Income by Specific Source	63
Schedule 2 – Schedule of Administrative Expenses	64
Schedule 3 – Schedule of Investment Related Expenses	65
 Investments	 Pages 67-106
Investment Overview.....	69
Investment Results	74
Investment Policy and Goal Statement	90
 Actuarial.....	 Pages 107-124
Actuary's Certification Letter	109
Principal Valuation Results.....	115
Actuarial Balance Sheet	116
Solvency Test.....	117
Schedule of Active Member Valuation Data	118
Retirees and Beneficiaries— Changes in Rolls	118
Actuarial Assumptions and Methods.....	119

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Statistical	Pages 125-142
Statistical Overview	127
Changes in Net Assets	128
Membership Summary	130
Special Statistics	130
IPERS Membership by Status	130
Membership by Group	131
Average Benefit Payments for Retirees	132
New Retirees by Employer Group	134
Average Benefit Payments by Retirement Date	135
Schedule of Benefit Payments by Type of Benefit	136
Schedule of Retired Members by Type of Benefit	136
Retired Members by Benefit Option	137
Active Membership Statistics	138
Analysis of Change in Active Membership	138
Principal Participating Employers	139
Growth of Net Investment Portfolio Assets	140
Investment Returns 1981-2009	141
Plan Summary	Pages 143-154
Composition	145
Membership	146
Buy-Backs/Buy-Ins	146
Contributions	147
Vesting	147
Refunds	147
Benefits	148
Distribution of IPERS Benefit Payments in Iowa Counties	151
Benefit Payments Summary	153
Distribution of IPERS Benefit Payments by State	154

The background of the entire page is a topographic map with white contour lines on a light blue background. The map features various elevation lines, some solid and some dashed, creating a complex, organic pattern. The title 'INTRODUCTION' is centered in the upper half of the page.

INTRODUCTION

Professional Awards

Letter of Transmittal

Administration

Investment Board

Benefits Advisory Committee

Professional and Consulting Services

Investment Managers



**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Iowa Public Employees'
Retirement System**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2008

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Kim L. Rott

President

Jeffrey R. Enos
Executive Director



Alan H. Winkler

December 15, 2009

To the Governor and the General Assembly of the State of Iowa:

I am pleased to present the Comprehensive Annual Financial Report of the Iowa Public Employees' Retirement System (IPERS, System, or plan) for the fiscal year ended June 30, 2009. This report is intended to provide complete and accurate information concerning the activities and results of the System's operations within a single publication. This report also fulfills the requirements set forth in Iowa Code section 97B.4(4)(a). The preparation of this report is the result of the combined effort of the System's staff under the direction of the management and CEO, who are responsible for the contents of the report.

This transmittal letter provides an overview of the status of IPERS. A thorough discussion of IPERS' activities and financial status is presented in the Financial, Investments, Actuarial, Statistical, and Plan Summary sections of the report.

Please note that membership numbers used in the Actuarial section differ from those used in other sections. Because the Actuarial section reflects projections of future costs, member deaths that occur during the last month of the fiscal year are not counted in the active or retired membership numbers. However, because there is a financial obligation for some of these members, they are included in the active or retired membership numbers in the Financial, Statistical, and Plan Summary sections.

This report is provided to the Governor, legislative leadership, IPERS Investment Board members, IPERS Benefits Advisory Committee members, and state fiscal staff in the Executive and Legislative Branches. Employers and IPERS members are advised of its availability online, and they may request a printed copy. Copies are also filed with the State Library of Iowa. All other interested persons may obtain the report through the IPERS Web site or upon request. IPERS also publishes an annual summary of information contained in this report, which is offered to members, employers, policymakers, and others.

Plan History

IPERS was established by the Legislature on July 4, 1953, to replace the Iowa Old-Age and Survivors' Insurance System (IOASI). Effective July 4, 1953, all current public employees who had been IOASI contributors were given the option of transferring their contributions to IPERS for service credit in IPERS (prior service) or taking refunds of their IOASI contributions. At the same time, the Legislature elected to include Iowa's public employees in the federal social security plan retroactive to 1951. Before enactment of the 1953 legislation, public employees were not covered under Social Security.

Initially, IPERS was a money purchase system that calculated benefits based on contributions. Today, IPERS is a defined benefit plan with benefits based on a formula using a member's years of service, high three-year annual average covered wage, and a multiplier. Members must have four years of service to qualify for lifetime benefits using the formula. A vested member with less than four years of service, which occurs when a member turns age 55 while contributing to IPERS, receives benefits computed on a money purchase basis.

Structure and Governance

IPERS and the IPERS Trust Fund are established in Iowa Code chapter 97B. The Iowa Legislature and the Governor, as creators of the plan, are the plan sponsors. The Code establishes IPERS as an independent agency within the Executive Branch of State Government.

The Investment Board is designated the Fund's trustee. It sets investment policy and oversees the actuarial program. There are seven voting members: the Treasurer of State and six gubernatorial appointees confirmed by the Senate. Legislative leadership appoints the four nonvoting legislative members.

The Benefits Advisory Committee was established to advise IPERS and the General Assembly on benefits and services. The Committee selects its own members from constituent groups representing employers and members.

IPERS is administered through the Chief Executive Officer, Donna M. Mueller, and her staff.

Member Services

IPERS ended the fiscal year with 167,717 contributing workers, fewer than the prior year.

Although the number of retirees increased from the prior fiscal year, the number of new retirees was down, likely a sign of the economic downturn.

IPERS was created so that Iowa would have a cost-effective way to provide a core retirement benefit that would help attract and keep quality employees in public service. IPERS benefits were designed to provide an adequate retirement income when combined with social security benefits and individual savings. Most public employees in Iowa become members of IPERS when they start employment with a covered employer, which includes schools, state agencies, counties, cities, townships, and other public entities. Public employees not covered by IPERS are judges, peace officers in the Iowa Department of Public Safety, police and fire personnel in cities with populations over 8,000, and university and community college personnel who elect other coverage.

IPERS had 324,411 members at the end of fiscal year (FY) 2009, with 167,717 active members employed and contributing to IPERS. There were 8,451 retirees drawing a pension in FY2009 who had returned to work with an IPERS-covered employer. Of these retired reemployed members, 7,183 were still employed at the end of the fiscal year and another 1,268 were no longer employed as of the end of the fiscal year but had not subsequently requested a refund or a benefit recalculation.

Services for members include benefit education and preretirement counseling. During the year, IPERS' benefits staff fielded 87,727 phone calls and answered 8,699 e-mails. Staff prepared 61,590 benefit estimates. IPERS provided group and individual benefit education and preretirement counseling to 8,541 members. Members submitted 1,850 applications to buy service credit and 725 members purchased service credit.

The most important service IPERS provides to its 89,852 retirees is the accurate and timely payment of benefits. During the fiscal year, IPERS paid 96 percent of 1,069,728 benefit payments by electronic funds transfer (EFT), which ensures the monthly benefit is in the recipient's account on the day that it is payable. EFTs have been IPERS' preferred payment method since 1992. IPERS charges a small service fee for paper checks.

Members have access to information electronically and in print. The IPERS Web site contains news and announcements, member publications, forms, and a benefit estimator. Members also visit the Web site to see their benefits statements, which are updated quarterly.

IPERS publishes easy-to-read booklets electronically and in print. The booklets explain benefits at various career stages. A comprehensive IPERS Member Handbook is also available electronically and in print. Twice a year IPERS publishes and directly mails to members information about benefits, plan changes, finances, and performance.

Employer Services

IPERS provides training and technical assistance to 2,241 employers to encourage voluntary compliance with IPERS' requirements. Employers also receive newsletters and a handbook of procedures and reporting requirements. A section of the Web site is dedicated to employers, and IPERS assigns staff to assist employer human resources departments.

Employers enrolled in I-Que (IPERS' Quest for Excellence), a new wage-reporting system, also receive messages, publications, and other materials through that system. Ninety-nine percent of all member wages are reported by employers electronically through I-Que.

Investments

IPERS funds benefit payments with a combination of member and employer contributions and investment earnings, with investment earnings typically providing the largest percentage of income. IPERS manages a large and diversified investment portfolio. IPERS is able to take advantage of its role as an enduring public organization by focusing much longer-term than even the youngest investor. This allows IPERS to maximize investments and lower transaction costs on behalf of its members in a way that an individual investor cannot. In fiscal year 2009, IPERS' investment expenses were 0.18 percent of the portfolio's total quarterly average fair value.

A staff of professional investment officers oversees IPERS' investments. The investment officers, most of whom have earned the respected Chartered Financial Analyst (CFA) or Certified Public Accountant (CPA) designation, oversee the six asset classes in which IPERS invests. IPERS' investment officers and investment consultants recommend asset allocation, investment policies, investment strategies, and contractor selection to the IPERS Investment Board, which makes the final decisions. IPERS' investment staff also manages the competitive selection process, negotiates detailed service contracts, and monitors contractors' compliance with their IPERS service agreements. The investment management firms select individual investments in the IPERS portfolio.

Fiscal year 2009 was a very difficult year for investments as capital markets reacted negatively to one of the most severe recessions in U.S. history, brought on by a massive deleveraging within the world's economies. And while most markets rebounded after mid-March as a result of the largest government stimulus program enacted since the Great Depression, it was not enough to overcome the huge market losses that occurred in the first nine months of the fiscal year. IPERS' -16.27 percent rate of return on investments for the fiscal year was the lowest fiscal year return IPERS has ever experienced, registering well below the actuarial assumed investment return of 7.50 percent and well below the benchmark of Consumer Price Index (CPI) plus 3 percent, which was 1.58 percent. IPERS' portfolio underperformed its policy benchmark return of -14.50 percent, but did exceed the -18.76 percent median return of other large public pension funds.

Although IPERS earned a -16.27 percent return on investments in FY2009, its return exceeded the -18.76 percent median return of other large public pension funds.

IPERS suffered negative returns mainly because of poor market returns. Every asset class except core plus fixed income experienced a negative return for the fiscal year, with the U.S. stock market down over 26 percent, international stocks down over 30 percent, and private equity and U.S. real estate markets down over 23 percent and 21 percent respectively. Diversification did not help much in such a terrible investment landscape. IPERS' fiscal year investment results were also hurt by the underperformance of several of IPERS' contracted investment managers that execute active management strategies within IPERS' equity, real estate, and bond portfolios. The unprecedented volatility of the market and the lack of liquidity for some securities had a major impact on many of these strategies. The investment division at IPERS is continuing its work to improve the active investment strategies within these portfolios in order to address these performance issues.

IPERS also recorded a loss on its investment in Westridge Capital Management due to alleged fraud at a firm named WG Trading Company. IPERS wrote its investment down by \$116 million, or approximately 40 percent of its estimated market value, based on the findings of a court-appointed receiver. The loss from this investment is expected to be less than 1 percent of the value of IPERS' portfolio. The receiver is currently in control of the remaining assets, and IPERS awaits distribution of those assets once the court approves a distribution plan. The Office of the Iowa Attorney General is assisting IPERS in coordinating legal strategy and monitoring and evaluating the court and regulatory agency proceedings. IPERS has not ruled out pursuing litigation against other parties to recover the losses.

Major Initiatives Charting the Course

*We cannot direct the
wind, but we can
adjust the sails.*

Author unknown

In FY2009, IPERS faced the most difficult challenges in its history. The worldwide financial crisis and the U.S. recession affected all investment markets. IPERS' -16.27 percent investment return was the lowest in IPERS' 56-year history. The negative return, while better than most of the System's peers', will disrupt IPERS' 30-year plan for funding benefits.

It was clear that IPERS needed to chart a new course while still in the midst of the recession. First, IPERS adjusted the portfolio to ensure sufficient liquidity given the unusual financial markets. Second, IPERS joined with federal authorities and the Iowa Attorney General to hold Westridge Capital Management accountable and recover IPERS' assets. Third, IPERS' administration and Benefits Advisory Committee recognized that although the funding problem is long-term, delaying action makes the solutions more painful and costly. Therefore the Committee began studying benefit and contribution rate changes that will rebalance long-term funding. The Committee's goal is to maintain IPERS' core purpose: a defined benefit plan that provides a secure retirement income. Its studies will continue in FY2010.

Preserving Positive Performance

As the studies of possible benefit changes began and economic uncertainty continued to rise, so did rumors about IPERS' financial health and the security of benefits. IPERS' Investment Board, Benefits Advisory Committee, and staff

needed to act but not overreact to constantly changing issues and concerns. Communicating with members, employers, and policymakers through outreach, presentations, training, newsletters, IPERS' Web site, and a new CEO blog became a top priority.

The increasing demands created by the recession did not lessen the need to continue routine tasks—implementing the Board's investment strategies, serving an increasing number of retirees, helping members plan for retirement, and moving employer reporting from old technology to IPERS' new I-Que system.

In FY2009, IPERS completed the fourth year of a five-year plan to implement I-Que. Member services, including enhanced online services, will be added to I-Que in the project's fifth and final year. I-Que will help IPERS serve an increasing number of baby boomers who will retire.

To maintain a focus on effectively administering the plan, IPERS completed voluntary reviews of its performance during fiscal year 2009. CEM Benchmarking Inc., an independent company that reviews pension systems worldwide, completed a benchmarking study on IPERS' benefits administration for the previous year. IPERS was lowest in costs when compared to its peers, while receiving high ratings for its services.

CEM Benchmarking Inc. also conducted a benchmarking study of IPERS' investment program that compared the Trust Fund's cost and investment performance to CEM's extensive pension fund database. The analysis concluded that IPERS' investment program was a low-cost investment program that added a modest amount of value (about 0.5 percent) over the five-year period ended December 31, 2008. The main reason for the positive added value was the outperformance of IPERS' private equity portfolio over the period.

CEM, an independent rating firm, continued to give IPERS high marks for its services and investment program while keeping costs down.

IPERS uses independent, outside evaluators to ensure it continues using good business practices and to find ways to improve.

Financial Highlights

Total Net Assets

Total net assets held in trust for pension benefits decreased from \$22.371 billion on June 30, 2008, to \$17.974 billion on June 30, 2009. These assets consist of capital assets owned by IPERS and investment portfolio assets. The decrease in net assets is due primarily to losses on investments related to the recent market conditions. An overview and analysis of IPERS' financial activities for the fiscal year ended June 30, 2009, is in *Management's Discussion and Analysis* in the Financial section of this report on page 31.

Investment Portfolio Assets¹

There were \$17.997 billion in assets in IPERS' investment portfolio on June 30, 2009.

At the close of FY2009, IPERS' net investment portfolio assets had a fair value of \$17.997 billion. The change in fair value represents a decrease of \$4.358 billion from the \$22.355 billion net investment asset fair value as of June 30, 2008. The largest factor contributing to the decrease was the investment portfolio return of -16.27 percent, which is more fully addressed below.

As in previous years, employer and employee contributions to IPERS only partially fund the benefit payments, refunds, and administrative expenses of the System. Funds must be drawn regularly from investment earnings to help meet these obligations. This drawdown of investment assets is typical for a mature pension system, where investment earnings are expected to supplement employer and employee contributions in meeting liabilities. In fiscal year 2009, employer and employee contributions totaled \$695 million, while total member benefits equaled \$1.217 billion (regular monthly benefits, refunds, and dividend payments). The resulting \$522 million contribution shortfall was funded with earnings and sales proceeds from the investment portfolio.

Investment Results

The capital markets were severely impacted by the recession in the U.S. economy and the continued deleveraging of the global financial system in fiscal year 2009. U.S. and international stock markets experienced returns of -26.40 percent and -30.54 percent, respectively, while private real estate and private equity benchmarks produced returns of -21.94 percent and -23.40 percent, respectively. Only core plus fixed income produced a positive return, coming in at 4.93 percent for the fiscal year. The magnitude and severity of these market events, and the volatility associated with them, also impacted the ability of many of IPERS' investment managers to add any value over their benchmarks.

IPERS' investment portfolio felt the impact of all these events, producing a total return on the System's investment portfolio (net of fees) for the fiscal year of -16.27 percent. The annualized return on IPERS' investments for the 10-year period ended June 30, 2009, was 3.91 percent. Since 1981, the IPERS investment portfolio has produced an annualized investment return (net of fees) of 10.02 percent.

¹Investment portfolio assets are based on fair value of the total investment portfolio at June 30, 2009, and June 30, 2008, gross of investment receivables and cash in investment manager accounts and net of payables and securities lending collateral. Although these values are the appropriate industry standard basis for calculation of investment returns, they differ from the "Investments at fair value" shown in the Financial section of this report, which are reported using GASB Statement No. 25 financial statement standards.

Revenues

The System is funded through a combination of employer and employee contributions and investment income. Contributions for regular IPERS members, who make up approximately 95 percent of the active membership, were 10.45 percent of employees' covered wages in FY2009. Employers contribute at a rate of 6.35 percent and employees at a rate of 4.10 percent, which represents about a 60 percent/40 percent split. Employees engaged in Special Service occupations (for example, law enforcement, fire safety, and similar protection occupations) and their employers contributed at higher actuarially determined rates.

For FY2009, revenues from employer and employee contributions, excluding buy-back/buy-in contributions, totaled \$686 million, a 10.10 percent increase over the prior fiscal year. Buy-back/buy-in contributions for the year amounted to \$9 million, a 14.48 percent decrease from the prior year. Net investment and securities lending income for fiscal year 2009 was -\$3.864 billion, due mainly to losses resulting from poor market conditions. This represents a decrease of \$3.525 billion from the prior year.

Expenses

Expenses are incurred primarily for the purpose for which IPERS was created: the payment of benefits to retirees. Included in the total expenses for the fiscal year were benefit payments, refunds, and dividend payments totaling \$1.217 billion. This amount increased 7.52 percent over the prior fiscal year.

Benefit payments exceeded \$1 billion for the third consecutive year.

The total number of annuitants receiving monthly benefits as of June 30, 2009, was 89,852. The net increase of 2,362 annuitants during FY2009 was similar to the increase during fiscal year 2008. The average monthly retirement benefit, including the November dividend and Favorable Experience Dividend (FED) payments, increased from \$996 to \$1,064.

All administrative expenses for the System are paid from the IPERS Trust Fund. The administrative budget is submitted to the Legislature annually for authorization of spending. Administrative expenses totaled \$11 million for fiscal year 2009, a 10.23 percent increase over last year. This increase was due largely to depreciation expense related to the addition of I-Que equipment.

In FY2009, the System retained two investment consultants and multiple investment managers to assist the Investment Board and administration in carrying out their fiduciary duties by providing capital markets and portfolio advice and investing the System's assets. For the fiscal year, IPERS' investment management expenses were \$33 million, a 17.15 percent decrease from last year. IPERS utilizes performance-based fee structures for many of its investment managers, as required by state law, and these arrangements generated lower fees in FY2009 when compared to FY2008. The decrease was primarily due to reductions in incentive management fees in the real estate portfolio, where performance has declined compared to prior years. Total management fees earned by real estate managers in FY2009 were \$8 million, a decrease of 46.08 percent from the \$15 million paid during FY2008.

For FY2009, the System expended 0.18 percent of the portfolio's total quarterly average fair value for investment management expenses.

INTRODUCTION

The System's ratio of investment management expenses to the portfolio's quarterly average fair value was 0.18 percent for FY2009. This expense ratio was slightly above the 0.17 percent for FY2008, despite the fact that investment management expenses declined 17.15 percent from the prior fiscal year, due to the large decrease in the quarterly average fair value of assets in FY2009.

Revenues (Dollar values expressed in millions)				Expenses (Dollar values expressed in millions)			
Source	2009	2008	Increase (Decrease)	Type	2009	2008	Increase (Decrease)
Contributions	\$ 686.3	\$623.3	\$ 63.0	Benefits	\$1,183.1	\$1,096.1	\$87.0
Buy-backs/buy-ins	9.3	10.9	(1.6)	Refunds	34.3	36.2	(1.9)
Net invest. & securities lending loss	(3,863.8)	(338.6)	(3,525.2)	Administrative	10.9	9.9	1.0
Total	\$(3,168.2)	\$295.6	\$(3,463.8)	Total	\$1,228.3	\$1,142.2	\$86.1

Funding

The ultimate test of whether a system such as IPERS is financially sound is whether it can pay all of its promised benefits as they come due. The achievement of this goal can be judged only over a long period of time. The annual valuation of the System's assets and liabilities by IPERS' actuary provides the best current estimate of the System's funded status. The actuarial valuation for funding purposes at June 30, 2009, reflected an unfunded actuarial liability (UAL) of \$4.895 billion. This represents the difference between the accrued actuarial liability of \$26.019 billion and the actuarial value of net assets of \$21.124 billion.

During the fiscal year, the UAL increased by \$2.230 billion from the preceding fiscal year's ending balance. The increase is primarily due to investment losses. The negative investment experience in FY2009 caused a significant drop in the funded ratio, which had been stable at around 90 percent since 2003. In addition, the statutory contribution rate for regular members is lower than the actuarial contribution rate. There was also an increase in liability related to demographic experience that was less favorable than anticipated by the actuarial assumptions. This actuarial loss was mainly due to actual salary increases for active members that were higher than expected.

The System's amortization period for the UAL remained at an infinite number of years, meaning the level of periodic payments to reduce this liability that is possible under the current statutory contribution rate will not be sufficient to pay off the UAL. IPERS' Funding Policy and Governmental Accounting Standards Board (GASB) Statement No. 25 require the amortization period not to exceed 30 years. This situation does not jeopardize the security of IPERS members' benefit payments for the next several years. However, it does signal a need to carefully monitor the sufficiency of the System's scheduled contribution rate increases approved by the 2006 Legislature, as well as to examine IPERS' benefit structure.

Based on the FY2009 actuarial valuation, the contribution rates necessary and sufficient for members and employers to fully fund the benefits and retirement allowances being credited are as follows for the fiscal year beginning July 1, 2010 (FY2011): Special Service Group 1 at 17.88 percent, Special Service Group 2 at 16.59 percent, and regular membership at 14.12 percent.

The actuarially required contribution rate is the statutory contribution rate for both groups of Special Service members. However, the contribution rate for regular members for FY2011 is set by statute at 11.45 percent. FY2009 was the seventh year the contribution rate for regular members was below the amount certified as actuarially required.

Future Prospects

IPERS has an 81.2 percent funded ratio (the ratio of actuarial assets to actuarial liabilities). The funded ratio has declined significantly, primarily due to investment losses. Because the majority of contributions go toward paying normal costs, only a small percentage is available to pay down the unfunded actuarial liability, and the amortization period is infinite. The scheduled contribution rate increases approved by the 2006 Legislature and the legislation passed in 2008 that gives IPERS the authority to implement actuarially determined contribution rates for regular members (not to exceed increases of 0.50 percentage point per year) may allow more of the contribution rate to be applied to paying down the UAL. However, given the negative return on investments in FY2009 and the unprecedented volatility of the capital markets since June 30, 2008, the legislated increases in the contribution rate are not anticipated to be enough to offset the continuing growth of the UAL. If current negative market conditions persist, additional contribution rate increases will be necessary to prevent a further decline in the funded ratio.

IPERS' board members and employees are dedicated to prudent investment and safeguarding the System's assets. Along with providing the highest possible level of service to members and retirees, these are and will remain IPERS' top priorities.

Accounting System and Internal Control

The financial statements included in this report are the responsibility of IPERS' management. The statements have been prepared in accordance with U.S. generally accepted accounting principles for governmental accounting and reporting as pronounced or adopted by the Governmental Accounting Standards Board and the Financial Accounting Standards Board.

IPERS' administration is also responsible for maintaining an internal accounting control system, designed to provide reasonable assurance that transactions are executed in accordance with the administration's general or specific authorization and are recorded as necessary to maintain accountability for assets and to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles.

IPERS' objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements since the cost of internal control should not exceed the benefits obtained.

Independent Audit

The Auditor of State is required by Iowa Code chapter 11 (2009) to audit all departments of the State annually. The accompanying financial statements of the System have been audited by the Auditor of State in accordance with U.S. generally accepted auditing standards, state law, and Government Auditing Standards. The Auditor's report is contained in the Financial section of this report.

Professional Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to IPERS for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2008. To be awarded a Certificate of Achievement, a governmental entity must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. IPERS believes its current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements, and IPERS is submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the Public Pension Coordinating Council (PPCC), a confederation of the National Association of State Retirement Administrators (NASRA), the National Conference on Public Employee Retirement Systems (NCPERS), and the National Council on Teacher Retirement (NCTR), awarded IPERS the Public Pension Standards Award for Funding and Administration for 2009. This award recognizes IPERS for meeting professional standards for plan funding and administration as set forth in the Public Pension Standards.

Sincerely,



Donna M. Mueller
Chief Executive Officer

Administration

IPERS' primary purpose is to provide a strong and secure retirement income for Iowa's former and current public employees. The activities of the administration are designed to accomplish this purpose and include:

- Providing counseling services and retirement information to active and retired members.
- Providing retirement, disability, and death benefits to members and beneficiaries.
- Providing refunds to members, which may be rolled over to other IRS-qualified retirement plans.
- Administering the benefits of the Iowa Old-Age and Survivors' Insurance System.
- Collecting employer contributions, employee contributions, and employee wage information in accordance with state law and IPERS' administrative rules.
- Providing recommendations to the Governor and General Assembly on plan design adjustments.
- Overseeing the investment of the System's funds in accordance with the Investment Policy and Goal Statement adopted by the Investment Board.

Iowa Public Employees' Retirement System
Donna M. Mueller, Chief Executive Officer

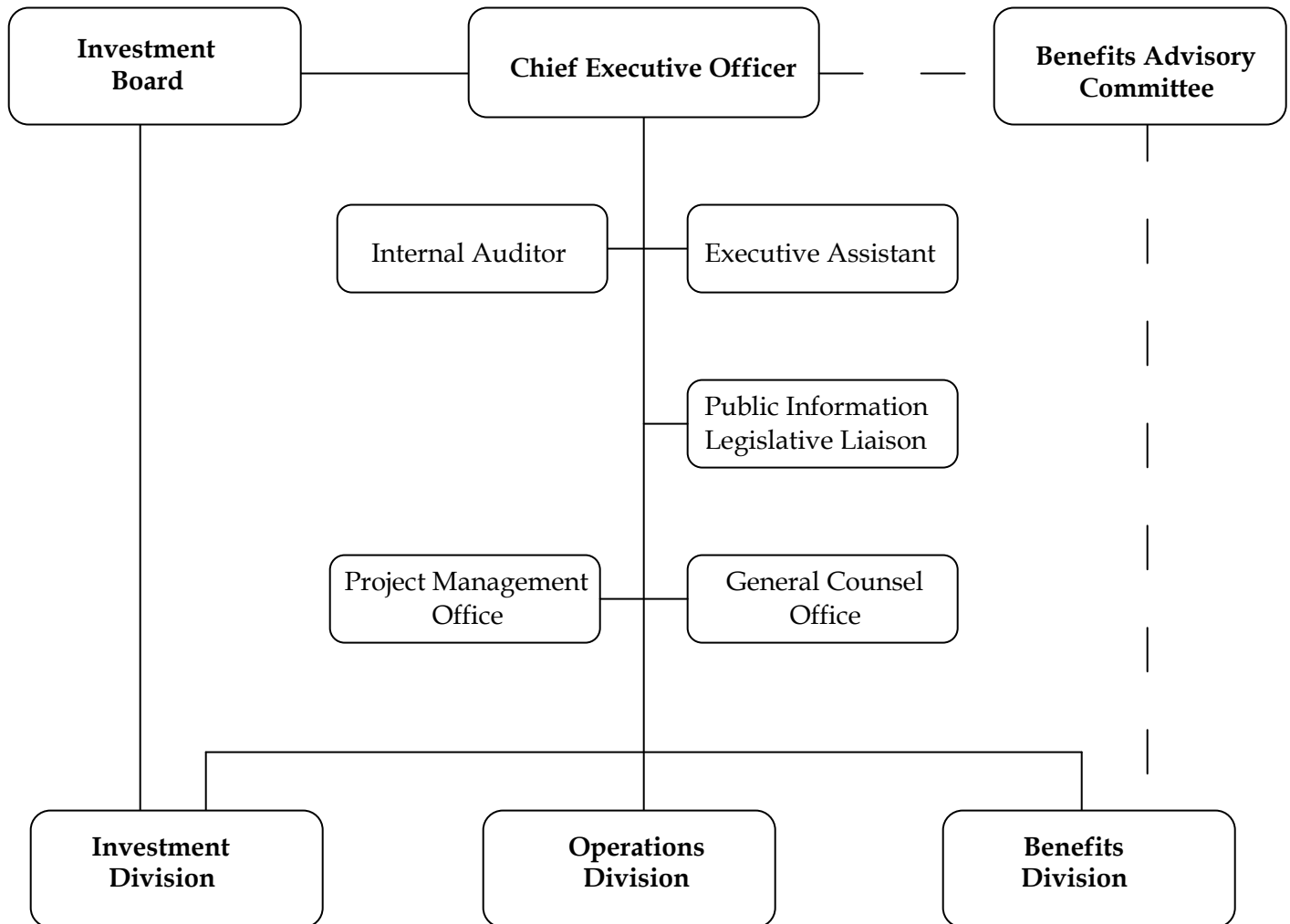
Investment Policy and Administration
Karl C. Koch, Chief Investment Officer

Membership and Benefit Administration
David Martin, Chief Benefits Officer

Operations
Leon J. Schwartz, Chief Operations Officer

Legal
Gregg A. Schochenmaier, General Counsel
Kelly Lovell, General Counsel

IPERS Table of Organization



Investment Board

The Investment Board of IPERS was created by state statute to establish policies and hire professional service contractors for the investment and actuarial programs of the System. The Investment Board holds public meetings regularly to review actuarial findings and investment performance, and to formalize policies with the administration.

Eleven members serve on the Investment Board, seven voting members and four nonvoting members. The voting members include:

- Three public members, appointed by the Governor, who are not members of IPERS and who each have substantial institutional investment experience or substantial institutional financial experience.
- Three members, appointed by the Governor, who are members of IPERS: one must be an active member who is an employee of a school district, area education agency, or merged area; one must be an active member who is not an employee of a school; and one must be a retired member of IPERS.
- The Treasurer of State.

The nonvoting members include two state representatives (one appointed by the speaker of the Iowa House of Representatives and one by the minority leader of the Iowa House) and two state senators (one appointed by the majority leader of the Iowa Senate and one by the minority leader of the Iowa Senate).

The term for an Investment Board member appointed by the Governor is six years. Gubernatorial appointees are subject to confirmation by the Iowa Senate.

The Investment Board is the IPERS Fund's trustee.

David O. Creighton* **Chair**

Term expires 2015

Mr. Creighton is the chair and chief executive officer of The Bryton Companies in West Des Moines and works in the property/casualty insurance business with the Asset Protection Agency. He has his chartered property casualty underwriter (CPCU) and certified insurance counselor (CIC) designations. Mr. Creighton studied business at Arizona State University and has nearly 30 years of business finance experience. He has served as a board member and former interim executive vice president of the National Association of Professional Insurance Agents.



Phyllis S. Peterson* **Vice Chair**

Term expires 2010

Dr. Peterson worked in Iowa public education for over 30 years before retiring in 2004 as the registrar of Kirkwood Community College. She began her career as a math teacher and later became involved in telecommunications usage and instructional research. Dr. Peterson received her doctorate from the University of Iowa.



*Voting member

Investment Board Members



Senator Staci Appel

Term expires 2011

Senator Appel, a former financial adviser, is active in her home community of Ackworth. She is an assistant majority leader and chair of the Senate State Government Committee. She also serves on the Agriculture, Appropriations, Education, Public Retirement Systems, and Rebuild Iowa Committees. Senator Appel is serving her second term in the Senate.



Michael Beary*

Term expires 2013

Mr. Beary is serving his fifth term as a member of the Monroe County Board of Supervisors, first taking office in 1989. As a supervisor, he has policymaking and administrative responsibilities, including setting budgets and tax levies. He also represents the county on other boards and commissions. An Iowa native who has lived in Iowa his whole life, Mr. Beary farms near Lovilia.



Lana J. Dettbarn*

Term expires 2011

The executive director for administrative services for the Eastern Iowa Community College District since 1979, Ms. Dettbarn is also the district's board treasurer. She has a master's degree in business administration from St. Ambrose University, and serves on the Advanced Technology Environmental Education Center Board.



State Treasurer Michael L. Fitzgerald*

Appointed by statute

Treasurer Fitzgerald was first elected to office in 1982, and in 1989 was named the most valuable public official working in state government by *City and State* magazine. He has been the president of four associations, including the National Association of State Treasurers, and is currently a member of numerous organizations dedicated to government finance and administration.



James (Jay) Ingram*

Term expires 2013

Mr. Ingram is the managing director of private wealth management at R.W. Baird, Inc., where he focuses on retail, high net worth, and institutional accounts. A licensed financial adviser for almost 40 years, his institutional investment experience includes retirement plans. Mr. Ingram was named one of America's 50 best financial advisers by *Research* magazine in 2005 and admitted to their Winner's Circle of Excellence.

*Voting member

Investment Board Members

Senator Steve Kettering

Term expires 2011

Senator Kettering is a community banker from Lake View. He is the Iowa Senate minority whip and a ranking member of the Appropriations and Judiciary Committees. Senator Kettering also serves on the Commerce, Ethics, Natural Resources, Public Retirement Systems, and Rules and Administration Committees.



Representative Mary Mascher

Term expires 2011

Representative Mascher, a teacher born and raised in Johnson County, lives in Iowa City. She received a B.A. in education and M.S. in counseling education from the University of Iowa. She is chair of the State Government Committee and vice chair of the Education Committee. She also serves on the Human Resources and Labor Committees and the Education Appropriations Subcommittee. Representative Mascher is active in community groups and was past president of the Iowa City Education Association. She is serving her seventh term in the House.



Representative Dawn Pettengill

Term expires 2011

Representative Pettengill is from Mount Auburn. She is the ranking member of the Ethics Committee and serves on the Commerce, Public Retirement Systems, Rebuild Iowa and Disaster Recovery, State Government, and Ways and Means Committees. Representative Pettengill is serving her third term in the House.



Joanne L. Stockdale*

Term expires 2011

Ms. Stockdale is the president and owner of Northern Iowa Die Casting. She is a certified public accountant with a degree from Iowa State University and accounting courses from Drake University. She was chosen Iowa's Outstanding CPA in Business and Industry for 2004.



*Voting member

Benefits Advisory Committee

The Benefits Advisory Committee includes representatives of major employer groups and major active and retired member associations.

The IPERS Benefits Advisory Committee (BAC) was created by state statute to make benefit and service recommendations to IPERS and the General Assembly. The Committee holds regular public meetings.

The Committee is composed of representatives of constituent groups concerned with the System, and includes representatives of all major employer groups and major active and retired member associations. While the constituent groups are generically named by statute, each association designates its representative to the Committee.

The Committee has nine voting members; seven are elected by the Committee membership. The director of the Iowa Department of Administrative Services is named a voting member in the Iowa Code. The voting members also elect a public member, who cannot be a member of the System. Of the nine voting members of the Committee, four must represent covered employers, four must represent IPERS membership, and one must be a public member. Voting members serve three-year terms.



Len Cockman*
Chair

Voting term expires 2012

Mr. Cockman, representing the Iowa Association of School Boards, is the human resource services director at that association. He is a certified professional in human resources and held administrative positions in Iowa public school districts for over ten years.



Bradley Hudson*
Vice Chair

Voting term expires 2011

Mr. Hudson is a lobbyist for the Iowa State Education Association. He is a former fiscal analyst for the Legislative Services Agency and assistant director of business and finance for the Iowa Board of Regents. As the school budget supervisor in the state budget office, Mr. Hudson was instrumental in revising the Iowa School Foundation Formula. He holds a bachelor's degree in business from Iowa State University.

*Voting member

Member Association Representatives

Susanna Brown

Ms. Brown is the executive director and chief legal counsel for the State Police Officers Council, a union representing public employees working in public safety occupations. Ms. Brown holds a bachelor's degree in business from the University of San Francisco, a master's degree in business administration from Drake University, and a Juris Doctorate from Drake University.



Walter L. Galvin

Mr. Galvin represents retired IPERS members on the BAC. He is retired and currently holds positions in the Iowa Retired School Personnel Association and the Des Moines Teachers Retirement System. He was the executive director of the Des Moines Education Association for over 15 years during his career.



Janie Garr

Ms. Garr represents the IPERS Improvement Association, a private nonprofit group, on the Committee. She has two graduate degrees, one in English education and one in counseling. A teacher and counselor at public schools in Ottumwa for 26 years, and once a secretary in the FBI, she is currently a realtor.



Patrick Lynch*

Voting term expires 2010

Mr. Lynch is the national political director for the International Brotherhood of Teamsters. A Teamster for 25 years, he was formerly their state political director in Iowa, Minnesota, North Dakota, and South Dakota. Mr. Lynch also is active in cooperative efforts with other unions in Iowa. A Dubuque native, Mr. Lynch is a board member of Iowa Jobs for America's Graduates and the Iowa Memorial Scholarship Fund.



*Voting member

Member Association Representatives



Steve Hoffman

Chief Jailer Steve Hoffman has served as a peace officer since 1991. He joined the Marshall County Sheriff's Office in 1994 as a deputy sheriff assigned to patrol. He has served in a number of roles including traffic safety officer, motorcycle officer, and drug task force investigator. He has been an instructor in defensive tactics and striking instruments since 1997 and was appointed to serve as the agency's third-in-command as chief jailer in July 2005.



Danny Homan*

Voting term expires 2010

Danny Homan, the president of AFSCME Iowa Council 61, was elected as the union's leader in July 2005. An AFSCME member for nearly 25 years, Mr. Homan started his public service career in corrections. Homan also serves on the AFSCME International Union Executive Board as Midwest Region Vice President. An Iowa native, he is active in the Iowa Federation of Labor and other labor activities. Mr. Homan proudly served with the United States Army.



Gaylord Tryon*

Voting term expires 2010

Dr. Tryon represents the School Administrators of Iowa on the Committee. He began his career as a teacher and elementary school principal, and he earned his doctorate in educational administration from Iowa State University. He served as executive director for the School Administrators of Iowa for 28 years before retiring in 2000. Since 2001, he has served as president of his own company, G. Tryon and Associates.

Employer Association Representatives



Ray Walton*

Appointed by statute

Ray Walton is the director of the Iowa Department of Administrative Services. He joined the department in 2007 as the chief operating officer of the General Services Enterprise. Mr. Walton previously was a regional manager with General Growth, overseeing more than 100 shopping centers. A graduate of Simpson College, Mr. Walton continues to live in Indianola where he is active in the community.

*Voting member

Employer Association Representatives

Martha Henrichs

Ms. Henrichs represents the Iowa Association of Community College Trustees. She is the personnel coordinator at Des Moines Area Community College where she has worked for 28 years. She received an undergraduate degree from the University of Northern Iowa and earned her master's of business administration from Iowa State University.

**James Maloney***

Voting term expires 2012

Mr. Maloney is the Polk County Assessor and represents the Iowa State Association of Counties on the Committee. He graduated from Drake University Law School and has held the positions of City Assessor for Des Moines and County Auditor of Polk County.

**Mark Tomb***

Voting term expires 2011

Mr. Tomb joined the Iowa League of Cities in August 2008 as the director of membership services. He is responsible for the League's technical assistance and training programs. Mr. Tomb received both his undergraduate degree in political science and master's of public administration from Kansas State University.



Public Member Representative

Diane Reid*

Voting term expires 2011

Ms. Reid retired as the executive director of the State Police Officers Council after 27 years of service. A veteran on public policy issues, she served as a member of the committee that preceded the Benefits Advisory Committee. Ms. Reid is a graduate of Katharine Gibbs School, holds an associate of science degree from Des Moines Area Community College, and has completed numerous seminars and training sessions on pension plans.



*Voting member

Professional and Consulting Services

The following organizations assist the IPERS Investment Board and administration in carrying out their fiduciary duties. Contracts are awarded following competitive procurement processes in accordance with state law.

Actuary

Milliman, Inc. — Omaha, NE

The actuarial consulting firm chosen by the Investment Board is responsible for:

- Certifying the adequacy of the contribution rates used by the System.
- Measuring and reporting the assets and liabilities of the System.
- Reviewing and analyzing trends in the System's membership and actuarial assumptions.

Plan Legal Counsel

Ice Miller Legal & Business Advisors—Indianapolis, IN

The external plan legal counsel chosen by the System is responsible for:

- Assisting periodically in the review and analysis of tax- and benefit-related matters.
- Providing advice to the staff on state and federal legislation and regulations.

Securities Litigation Monitoring Counsels

Barrack, Rodos & Bacine — Philadelphia, PA

Bernstein, Liebhard & Lifshitz — New York, NY

Cohen, Milstein, Hausfeld & Toll — Washington, DC

The external securities litigation monitoring firms chosen by the System are responsible for:

- Monitoring security class-action litigation globally.
- Filing claims against class-action settlements.
- Serving as counsel for IPERS when IPERS seeks to serve as lead plaintiff in federal or state court.

Investment Consultants

Wilshire Associates Inc.—Santa Monica, CA (General)

The Townsend Group—Cleveland, OH (Real Estate)

The investment consulting firms chosen by the Investment Board are responsible for:

- Preparing asset allocation studies for the System.
- Periodically reviewing investment performance.
- Assisting in the screening and selection of investment managers.
- Providing support in the development and implementation of the System's investment goals, objectives, and policies.

Master Custodian and Securities Lending Agent

The Bank of New York Mellon—New York, NY

The Treasurer of the State of Iowa is the custodian of the Fund and has hired a master custodian bank to assist in the custody and record-keeping of the System's assets. The System also utilizes the custodian bank as its securities lending agent. The custodian is responsible for:

- Maintaining safe custody of the assets owned by the System.
- Settling trades in accordance with instructions from the System.
- Collecting in a timely manner the income due to the System.
- Administering a securities lending program for the System's assets and investing cash collateral received from such loans.
- Providing periodic reports summarizing the investment activity of the System's assets.

Operational/Information Technology Consultants

L.R. Wechsler, Ltd. — Fairfax, VA

Vitech Systems Group, Inc. — New York, NY

The most significant operational/information technology consultants chosen and utilized by the System are responsible for:

- Implementing a new benefits administration system.
- Assisting in the review and improvement of all benefits administration business processes.
- Providing independent verification and validation and quality assurance services.

Benchmarking Consultant

CEM Benchmarking Inc. — Toronto, Ontario, Canada

The independent benchmarking consultant firm is responsible for:

- Providing standardized comparative information for IPERS' investment management.
- Providing standardized benefit administration cost information.
- Providing standardized service levels and activity information.

Investment Managers

The Investment Board has selected a variety of investment management firms to execute the investment strategies of the System. Managers are given full discretion to direct and manage the investment of the assets allocated to their accounts in accordance with applicable federal and state regulations and their executed contracts.

The investment managers chosen by the System are responsible for:

- Investing the funds allocated to them in accordance with their contracts, the Investment Policy and Goal Statement, and applicable statutes.
- Reporting periodically to the investment staff and Investment Board on matters such as performance, market conditions, and compliance with their contracts.

As of June 30, 2009

Domestic Equity

Barclays Global Investors, NA
San Francisco, CA

Mellon Capital Management Corp.
San Francisco, CA

RCM
San Francisco, CA

Wellington Management Company, LLP
Boston, MA

International Equity

Barclays Global Investors, NA
San Francisco, CA

Emerging Markets Management, LLC
Arlington, VA

GAM USA Inc.
New York, NY

Oechsle International Advisors, LLC
Boston, MA

Quantitative Management Associates, LLC
Newark, NJ

Wellington Management Company, LLP
Boston, MA

Liquidation Account

Smith Breeden Associates, Inc.
Chapel Hill, NC

Western Asset Management Co.
Pasadena, CA

Westridge Capital Management, Inc.
Santa Barbara, CA

Core Plus Fixed Income

BlackRock Financial Management, Inc.
New York, NY

Mellon Capital Management Corp.
San Francisco, CA

Principal Global Investors, LLC
Des Moines, IA

Western Asset Management Co.
Pasadena, CA

High-Yield Bonds

Oaktree Capital Management, LLC
Los Angeles, CA

Post Advisory Group, LLC
Los Angeles, CA

Private Equity/Debt

Pathway Capital Management, LLC
Irvine, CA

Real Estate

ING Clarion Partners
New York, NY

INVESCO Realty Advisors
Dallas, TX

RREEF America, LLC
Chicago, IL

TA Realty, LLC
Boston, MA

UBS Realty Investors, LLC
Hartford, CT



FINANCIAL

Independent Auditor's Report

Management's Discussion and Analysis

Basic Financial Statements

Statement of Plan Net Assets

Statement of Changes in Plan Net Assets

Notes to Financial Statements

Required Supplementary Information

Other Supplementary Information





OFFICE OF AUDITOR OF STATE

STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

David A. Vaudt, CPA
Auditor of State

Independent Auditor's Report

To the Members of the
Iowa Public Employees' Retirement System Investment Board:

We have audited the accompanying statement of plan net assets of the Iowa Public Employees' Retirement System (IPERS) as of June 30, 2009 and 2008, and the related statement of changes in plan net assets for the years then ended. These financial statements are the responsibility of IPERS' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

As discussed in note 1, the financial statements present the financial position and the changes in financial position of only that portion of the financial reporting entity of the State of Iowa that is attributable to the transactions of IPERS. They do not purport to, and do not, present fairly the financial position of the State of Iowa as of June 30, 2009 and 2008, and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of IPERS at June 30, 2009 and 2008, and the changes in plan net assets for the years then ended in conformity with U.S. generally accepted accounting principles.

Management's Discussion and Analysis and the schedules of funding progress and employer contributions on pages 31 through 35 and 61 through 62 are not required parts of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audits of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

We did not audit the data included in the introduction, investments, actuarial, statistical and plan summary sections and, accordingly, express no opinion on it.

Our report on IPERS' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts and other matters required by Government Auditing Standards will be issued under separate cover. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audits.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 2, 2009

Management's Discussion and Analysis

This discussion and analysis of the Iowa Public Employees' Retirement System provides an overview of the retirement system's financial activities for the fiscal year ended June 30, 2009. It is intended to be used in conjunction with the transmittal letter and IPERS' financial statements and notes, which begin on page 36 of this report.

Using This Financial Report

This Comprehensive Annual Financial Report reflects the activities of the Iowa Public Employees' Retirement System as reported in the Statement of Plan Net Assets (see page 36) and the Statement of Changes in Plan Net Assets (see page 37). These statements are presented on an accrual basis and reflect all Trust Fund activities as incurred. The Notes to Financial Statements are an integral part of the financial statements and include additional information not readily evident in the statements themselves. The Required Supplementary Information and Other Supplementary Information following the Notes to Financial Statements provide historical and additional detailed information considered useful in evaluating the condition of the plan. Investment data in the Financial section are presented at fair value. See the Actuarial section of this report for a detailed discussion of the actuarial value of assets and liabilities and the funded status.

Financial Highlights

- IPERS' plan net assets held in trust for pension benefits decreased \$4.4 billion during fiscal year 2009. On June 30, 2009, total plan assets (including capital assets of \$15.0 million) were \$19.5 billion, exceeding total liabilities of \$1.5 billion, resulting in net assets held in trust for pension benefits of \$18.0 billion.
- Capital assets increased from \$12.5 million at the end of fiscal year 2008 to \$15.0 million at the end of fiscal year 2009. This was primarily due to the capitalization of \$3.9 million in equipment and other expenses directly related to the I-Que project, which was discussed on pages 7 and 9 of the Introduction.
- Covered wages, upon which both employee and employer contributions are calculated, increased \$307.2 million, or 5 percent, over the last fiscal year and totaled \$6.4 billion. Employer and employee contributions increased, in total, by 10 percent. In comparison, fiscal year 2008 saw a 6 percent increase in covered wages and a 10 percent increase in contributions.
- Net investment and securities lending loss, after all investment-related expenses, was -\$3.9 billion in fiscal year 2009, due primarily to losses resulting from poor market conditions. In comparison, FY2008 produced a loss of -\$338.6 million and FY2007 produced a gain of \$3.3 billion. Investment management expenses were \$32.5 million for FY2009. In comparison, investment management expenses were \$39.3 million for FY2008 and \$58.3 million for FY2007.

- Total contributions, investments, and other income resulted in an overall negative impact to the Fund of -\$3.2 billion in fiscal year 2009, the result of severe market losses. This compares to positive impacts of \$295.6 million in FY2008 and \$3.9 billion in FY2007.
- Pension benefit payments to members increased \$87.0 million, continuing the trend experienced in the previous seven fiscal years. Refunds decreased from \$36.2 million to \$34.3 million. Payments to members totaled \$1.2 billion in fiscal year 2009, compared to \$1.1 billion in both FY2008 and FY2007.
- Administrative expenses totaled \$10.9 million, compared to \$9.9 million for fiscal year 2008 and \$9.1 million for fiscal year 2007. Administrative expenses were 0.06 percent of the value of plan net assets in fiscal year 2009. In comparison, administrative expenses were 0.04 percent of the value of plan net assets in both FY2008 and FY2007. The increase in administrative expenses for FY2009 was primarily due to depreciation expense related to the addition of I-Que equipment.

Analysis of Plan Net Assets

Tables 1 and 2 present condensed summaries of plan net assets and a breakdown of the changes to the plan net assets with comparison to the previous two fiscal years.

IPERS' plan net assets at June 30, 2009, were \$18.0 billion, having decreased \$4.4 billion from the previous fiscal year-end balance.

A large percentage of total assets, 96 percent, is made up of investments held to provide retirement, survivor, and disability benefits to qualified members and their beneficiaries. Other assets, including cash and cash equivalents, receivables from member and employer contributions, receivables from investment-related transactions, and capital assets, make up 4 percent of total assets. Total plan net assets decreased 20 percent in fiscal year 2009, mostly because poor market conditions had a negative impact on the fair value of investments.

Total liabilities in Table 1 represent current liabilities and do not reflect the actuarial liabilities discussed in the Actuarial section of this report. These current liabilities consist primarily of amounts owed for investment-related transactions, including the value of rebates and collateral due back to borrowers of securities at the conclusion of securities lending transactions, amounts owed to members or their beneficiaries, and amounts owed to contractors and vendors. Total liabilities decreased \$2.3 billion from fiscal year 2008 to 2009, as compared to a decrease of \$954.1 million between fiscal years 2007 and 2008. The majority of the decrease in liabilities for fiscal year 2009 was due to decreased payables for investments purchased and securities lending rebates and collateral payable.

Total plan net assets decreased in FY2009 largely because of market declines.

Table 1**Plan Net Assets***(Dollar values expressed in thousands)*

Fiscal years ended June 30

	2009	2008	2009/2008 Inc/(Dec) Percent	2007	2008/2007 Inc/(Dec) Percent
Cash and investments at fair value	\$19,000,853	\$24,636,972	(22.9)	\$26,727,594	(7.8)
Receivables	469,097	1,558,465	(69.9)	1,271,506	22.6
Capital assets	14,996	12,474	20.2	9,471	31.7
Total assets	19,484,946	26,207,911	(25.7)	28,008,571	(6.4)
Total liabilities	1,510,905	3,837,316	(60.6)	4,791,403	(19.9)
Total plan net assets	\$17,974,041	\$22,370,595	(19.7)	\$23,217,168	(3.6)

Table 2**Changes in Plan Net Assets***(Dollar values expressed in thousands)*

Fiscal years ended June 30

	2009	2008	2009/2008 Inc/(Dec) Percent	2007	2008/2007 Inc/(Dec) Percent
Additions					
Contributions & buy-backs/buy-ins	\$ 695,559	\$ 634,190	9.7	\$ 574,604	10.4
Net investment and securities lending income/(loss)	(3,863,760)	(338,575)	(1,041.2)	3,298,843	(110.3)
Total additions	(3,168,201)	295,615	(1,171.7)	3,873,447	(92.4)
Deductions					
Benefits and refunds	1,217,456	1,132,302	7.5	1,052,089	7.6
Administrative expenses	10,897	9,886	10.2	9,061	9.1
Total deductions	1,228,353	1,142,188	7.5	1,061,150	7.6
Increase/(decrease) in plan net assets	\$(4,396,554)	\$(846,573)	(419.3)	\$2,812,297	(130.1)

The decreases in plan net assets experienced from the end of fiscal year 2008 to the end of fiscal year 2009 and from the end of fiscal year 2007 to the end of fiscal year 2008 were primarily due to investment market conditions. Benefits paid out continued to exceed contributions received by \$521.9 million, \$498.1 million, and \$477.5 million for fiscal years 2009, 2008, and 2007, respectively. This excess of benefits paid relative to contributions received is characteristic of a mature pension plan such as IPERS.

Total administrative expenses for fiscal years 2009, 2008, and 2007 were \$10.9 million, \$9.9 million, and \$9.1 million, respectively. (See Schedule of Administrative Expenses, page 64.)

The investment rates of return for the current and preceding two fiscal years were -16.27 percent, -1.33 percent, and 16.29 percent, respectively. (See also the Investments section of this report beginning on page 67 for more information on rates of return.)

The following table contains the fiscal year performance of each asset class, benchmark, and the Fund's actual asset allocation as of June 30, 2009.

Table 3

Asset Class	Return	Benchmark	Allocation
Domestic equity	-31.43%	-26.40%	21.17%
International equity	-29.64%	-30.54%	13.36%
Core plus fixed income	2.91%	4.93%	35.70%
High-yield bonds	-1.97%	-4.22%	5.16%
Private equity/debt	-25.23%	-23.40%	11.56%
Real estate	-25.28%	-21.94%	8.34%
Liquidation account	NA	NA	3.24%
Short-term cash	1.10%	0.95%	1.47%
Total Fund	-16.27%	-14.50%	100.00%

Current Market Conditions

Subsequent to June 30, 2009, capital markets have experienced marked improvement as the stimulus plans put into action by the world's central banks appear to have stabilized the global economy for now. IPERS estimates the fair value of its investment portfolio has increased to approximately \$19.5 billion as of October 31, 2009, which would represent an increase of \$1.5 billion from the value reported in the accompanying financial statements.

While the developments in the economy and the capital markets over the past 18 months have been extreme even by historical standards, it is important to understand IPERS is a long-term investor with a long-term horizon—many of IPERS' liabilities are not due for 20 to 30 years. Furthermore, IPERS has adequate liquidity in its portfolio to meet its cash obligations for many years.

IPERS management will closely monitor the situation and work with the plan sponsor to restore the funding ratio. Higher contribution rates, a reduction in future benefit accruals, or a combination of both could be necessary in the future in order to fund all promised benefits.

Contacting System Financial Management

This financial report is designed to provide the plan sponsors, the Investment Board, the Benefits Advisory Committee, the System's membership, contributors, taxpayers, and creditors with a general overview of the System's finances and to demonstrate the System's accountability for the money it receives. If you have any questions about this report or need additional financial information, you may contact the Iowa Public Employees' Retirement System by e-mail at info@ipers.org, by phone at 515-281-0020 or 1-800-622-3849, or by mail at P.O. Box 9117, Des Moines, IA 50306-9117.

Basic Financial Statements**Statement of Plan Net Assets**

June 30, 2009 and 2008

	2009 Pension Trust Fund	2009 QBA Fund*	2009 Total	2008 Total
Assets				
Cash and cash equivalents	\$ 285,120,306	\$2,624	\$ 285,122,930	\$ 182,644,381
Receivables				
Contributions receivable	53,350,133	---	53,350,133	52,065,502
Accrued interest and dividends	62,102,870	1	62,102,871	74,727,540
Receivable for investments sold	348,281,770	---	348,281,770	1,428,910,938
Foreign exchange contracts receivable	5,362,808	---	5,362,808	2,760,935
Total receivables	469,097,581	1	469,097,582	1,558,464,915
Investments at fair value				
Fixed income	7,622,702,084	---	7,622,702,084	9,635,811,984
Domestic equity	3,805,487,883	---	3,805,487,883	4,098,080,113
International equity	2,389,790,557	---	2,389,790,557	3,183,863,454
Real estate	1,501,682,972	---	1,501,682,972	2,073,415,621
Private equity/debt	2,080,317,195	---	2,080,317,195	2,504,525,557
Liquidation account	564,506,304	---	564,506,304	1,757,648,483
Securities lending collateral pool	751,242,781	---	751,242,781	1,200,983,150
Total investments	18,715,729,776	---	18,715,729,776	24,454,328,362
Capital assets				
Depreciable assets—net of accumulated depreciation	14,496,184	---	14,496,184	11,973,791
Nondepreciable assets—land	500,000	---	500,000	500,000
Total capital assets	14,996,184	---	14,996,184	12,473,791
Total assets	19,484,943,847	2,625	19,484,946,472	26,207,911,449
Liabilities				
Accounts payable and accrued expenses	22,804,557	---	22,804,557	34,029,755
Payable for investments purchased	673,248,994	---	673,248,994	2,579,741,045
Rebates and collateral payable	809,451,718	---	809,451,718	1,220,763,027
Foreign exchange contracts payable	5,400,552	---	5,400,552	2,782,633
Total liabilities	1,510,905,821	---	1,510,905,821	3,837,316,460
Net assets held in trust for pension benefits (Note 10, page 59)	\$17,974,038,026	\$2,625	\$17,974,040,651	\$22,370,594,989

See Schedule of Funding Progress on page 61.

See Notes to Financial Statements.

*See Note 11 on page 60.

Statement of Changes in Plan Net Assets

Years ended June 30, 2009 and 2008

	2009 Pension Trust Fund	2009 QBA Fund*	2009 Total	2008 Total
Additions				
Contributions				
Employer contributions	\$ 415,301,133	\$23,000	\$ 415,324,133	\$ 377,416,750
Employee contributions	270,934,593	---	270,934,593	245,897,672
Buy-back/buy-in contributions	9,300,671	---	9,300,671	10,875,125
Total contributions	695,536,397	23,000	695,559,397	634,189,547
Investments				
Interest	378,304,766	31	378,304,797	418,237,132
Dividends	64,652,316	---	64,652,316	87,681,256
Real estate and private equity/debt	101,713,961	---	101,713,961	53,758,151
Net depreciation in fair value of investments	(4,345,603,579)	---	(4,345,603,579)	(848,779,814)
Other	66,744	---	66,744	298,911
Investment management expenses	(32,538,795)	---	(32,538,795)	(39,275,497)
Net investment income/(loss)	(3,833,404,587)	31	(3,833,404,556)	(328,079,861)
Securities lending income				
Securities lending income	14,845,898	---	14,845,898	72,136,756
Securities lending net depreciation in fair value of collateral pool	(36,734,366)	---	(36,734,366)	(22,066,300)
Securities lending expenses	(8,467,576)	---	(8,467,576)	(60,565,261)
Net securities lending loss	(30,356,044)	---	(30,356,044)	(10,494,805)
Total additions	(3,168,224,234)	23,031	(3,168,201,203)	295,614,881
Deductions				
Benefit payments	1,183,097,831	20,985	1,183,118,816	1,096,097,859
Member and employer refunds	34,337,453	---	34,337,453	36,204,512
Administrative expenses	10,896,101	765	10,896,866	9,885,467
Total deductions	1,228,331,385	21,750	1,228,353,135	1,142,187,838
Net increase/(decrease)	(4,396,555,619)	1,281	(4,396,554,338)	(846,572,957)
Net assets held in trust for pension benefits beginning of year	22,370,593,645	1,344	22,370,594,989	23,217,167,946
Net assets held in trust for pension benefits (Note 10, page 59)	\$17,974,038,026	\$ 2,625	\$17,974,040,651	\$22,370,594,989

See Notes to Financial Statements.

*See Note 11 on page 60.

Notes to Financial Statements

June 30, 2009 and 2008

(1) REPORTING ENTITY

IPERS, a public employee retirement system, was created by the Iowa Legislature. IPERS is a component unit of the primary government of the State of Iowa and, accordingly, has been included as a pension trust fund in the *Iowa Comprehensive Annual Financial Report* (CAFR) as well as having its own stand-alone comprehensive annual financial report. The State's CAFR may be viewed from the Iowa Department of Administrative Services' Web site at <das.sae.iowa.gov/financial_reports/index.html>.

For financial reporting purposes, IPERS considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with IPERS is such that exclusion would cause IPERS' financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of IPERS to impose its will on that organization, or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on IPERS. IPERS has no component units that meet the Governmental Accounting Standards Board criteria.

(2) PLAN DESCRIPTION

A. Administration

IPERS is a cost-sharing, multiple-employer, defined benefit public employee retirement system. Administrative expenses are appropriated each year by the Iowa Legislature and paid from the Trust Fund.

B. Plan Membership

IPERS membership is mandatory for most state, county, and local public employees, employees of school districts, and certain elected officials. Membership is optional for some individuals, including the members of the Iowa Legislature. Members of other retirement systems supported by Iowa public funds are excluded from membership.

FINANCIAL

	June 30, 2009	June 30, 2008
Employers		
City	1,163	1,184
County	415	412
School	393	395
State	25	25
28E agencies	68	66
Utilities	134	133
Other	43	44
Total	2,241	2,259
Members		
Retirees and beneficiaries	89,852	87,490
Inactive vested	32,297	31,246
Active vested*	128,004	126,413
Active nonvested*	39,713	41,437
Inactive nonvested	34,545	33,051
Total	324,411	319,637

*FY2008 active vested and active nonvested counts have been adjusted.

C. Plan Benefits

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description of IPERS benefits is provided for general informational purposes only. Members should refer to the plan documents for more comprehensive information.

D. Pension Benefits

A member may retire at age 65 (or anytime after reaching age 62 with 20 or more years of covered employment) and receive monthly benefits without an early retirement adjustment. A member is also entitled to benefits without an early retirement adjustment if the member's years of service plus the member's age at the last birthday equals or exceeds 88. (These qualifications must be met on the member's first month of entitlement to benefits.)

A member's monthly retirement allowance will be reduced by 0.25 percentage point for each month that the member's first month of entitlement precedes the date the member would have first retired with a normal retirement allowance. The date at which the member would first receive a normal retirement allowance is based on the member's actual age and years of service at the first month of entitlement.

E. Disability and Death Benefits

A vested member who is awarded federal social security or federal railroad retirement disability benefits because of a disability is eligible to claim IPERS benefits regardless of age. Disability benefits are unreduced for age. In lieu of the foregoing, a vested Special Service member may apply for in-service or ordinary disability retirement benefits under the Special Service member disability program.

Eligibility for the Special Service member disability program benefits is determined by IPERS and also may begin at any age.

If a member dies before retirement, the beneficiary will receive a lifetime annuity or a lump-sum cash payment which is equal to the present actuarial value of the member's accrued benefit or a calculated formula, whichever is greater. When a member dies after retirement, the availability of death benefits depends on the benefit option selected by the member at the time of retirement.

F. Refunds

If a member leaves covered employment and applies for a refund, a lump-sum cash payment will be made based upon the member's accumulated contributions. Vested members requesting a refund also receive a portion of their accumulated employer contributions.

G. Vested Membership

A member who leaves covered employment after completing at least 4 years of covered service or has attained the age of 55 while making contributions to the plan has vested rights to IPERS benefits.

H. Funding Requirements

Member and employer contribution rates are established by statute for the regular membership. The contributions are remitted by participating employers. Certain members and employers engaged in law enforcement, fire safety, and other protection occupations contribute at actuarially determined rates as shown in the following table. Wages are covered up to the federal limit of \$245,000 for calendar year 2009.

Contribution Rates in Effect July 1, 2008–June 30, 2009

	Employee	Employer	Total
Regular Membership	4.10%	6.35%	10.45%
Special Service Group 1*	7.52%	7.52%	15.04%
Special Service Group 2†	5.63%	8.45%	14.08%

*Sheriffs and deputies.

†All other protection occupation members.

State law set the FY2009 contribution rate for regular members. Special Service members paid an actuarial rate.

(3) COMPARATIVE DATA/RECLASSIFICATIONS

Three investments related to discontinued portable alpha strategies (Smith Breeden, Western Asset, and Westridge Capital Management) have been reclassified and reported in a liquidation account. The account is a temporary account created to hold these investments; none of these accounts have any remaining exposure to domestic equity. These strategies were reported in the domestic equity portfolio on June 30, 2008, but have been reclassified to be consistent with the current year's presentation. The investment performance for each of these managers is reflected in the domestic equity portfolio up to the end of the month in which it was reclassified. Performance after date of reclassification is not included in the returns for the domestic equity portfolio, but is included in the calculation of investment returns for the total fund.

(4) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

IPERS' financial statements have been prepared using the accrual basis of accounting in conformity with U.S. generally accepted accounting principles as applied to government units. Revenues are recognized when they are earned and become measurable.

Expenses are recognized when the liability is incurred. As such, plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The System is funded through a combination of employer and employee contributions and investment income. Investment sales and purchases are recorded as of their trade date.

B. Cash and Cash Equivalents

For the purpose of financial reporting, cash and cash equivalents represent cash and money market investments with an original maturity of 3 months or less, held by the System's administration, and cash allocated to the System's investment managers for investment.

C. Foreign Exchange Contracts

The System enters into forward foreign exchange contracts to minimize the short-term impact of foreign currency fluctuations on the asset and liability positions of foreign investments. The gains or losses on these contracts are included in income in the period in which the exchange rates change.

D. Investments

IPERS is authorized to execute the investment of moneys to meet the requirements of the Investment Policy and Goal Statement established by the Investment Board, in accordance with the "Prudent Person" mandate of Iowa Code section 97B.7A.

All investments are reported at fair value. The determination of fair value is generally based on published market prices and quotations from major investment brokers. Investments not having quoted market prices have been valued based on yields and maturities currently available on comparable securities of similar issue. Fair values for real estate investments are based on periodic assessments or appraisals of the underlying investments. Futures contracts are valued daily with the resulting adjustment recorded as realized gains/losses arising from the daily settlement of the variation margin. Private equities are valued based on March 31 net asset values plus or minus purchases, sales, and cash flows from April 1 through June 30 of the reporting year.

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the System and are held by either the counterparty or the counterparty's trust department or agent but not in the System's name.

The Treasurer of State is the statutory custodian of the funds of the System, and in this capacity, has arranged to have the custodial bank account collateralized or covered by the State Sinking Fund.

Consistent with the System's investment policy, the investments are held by the System's custodian and registered in the System's name. All of the System's securities are held by the System's custodial bank in the System's name, except for securities on loan with brokers for cash collateral, investments in mutual and commingled funds, real estate properties, and limited partnerships, which, by their nature, are not required to be categorized. Investments in the Short-Term Investment Funds (STIF) are held in a Securities and Exchange Commission-registered pooled fund that is managed by the master custodian bank. The fair value of the position in the pool equals the value of the pool shares. A summary of investments as of June 30, 2009, follows.

Invested Assets*
(Dollar values expressed in thousands)
June 30, 2009

Investment Type	Total Fair Value	Fair Value on Loan
Cash	\$ (293,751)	---
Cash collateral at broker	40,088	---
Forward contracts	(342)	---
Pooled funds and mutual funds	562,890	---
Treasuries	16,579	---
Government agencies	<u>137,569</u>	<u>\$101,440</u>
Short-term investments	717,038	101,440
Common stocks	2,153,060	193,131
Real estate investment trusts	88,476	3,459
Preferred stock	33,614	5,015
Other equities	<u>3,008</u>	<u>2,598</u>
Equity investments	2,278,158	204,203
<i>Government agencies</i>	287,490	114,027
<i>Government bonds</i>	170,074	61,512
<i>Government notes</i>	76,684	1,948
<i>Government inflation indexed</i>	76,947	40,293
<i>Other government fixed income</i>	<u>39,103</u>	<u>4,366</u>
Government fixed income	650,298	222,146
<i>Government National Mortgage Association</i>	74,381	4,453
<i>Freddie Mac</i>	284,693	---
<i>Fannie Mae</i>	771,783	---
<i>Collateralized mortgage obligations</i>	58,130	---
<i>Other government mortgage-backed</i>	<u>15,171</u>	<u>---</u>
Government assets and mortgage-backed	1,204,158	4,453
<i>Asset-backed securities</i>	795,290	7,661
<i>Corporate bonds</i>	<u>2,238,780</u>	<u>205,743</u>
Corporate fixed income	3,034,070	213,404
State and local obligations	5,733	---
<i>Private placements</i>	628,252	43,890
<i>Miscellaneous other fixed income</i>	<u>21,173</u>	<u>641</u>
Other fixed income	649,425	44,531
Fixed income investments	5,543,684	484,534
Convertible preferred stock	2,231	---
Convertible corporate bonds	<u>4,381</u>	<u>---</u>
Convertible investments	6,612	---
Derivative instruments	(30,706)	---
Real estate	1,403,630	---
Equity funds	3,967,866	---
Fixed income funds	<u>2,283,987</u>	<u>---</u>
Commingled funds	6,251,853	---
Venture capital	438,167	---
Special equity	<u>1,642,107</u>	<u>---</u>
Private equity	2,080,274	---
Total	\$17,996,538	\$790,177

*Investment portfolio assets are based on fair value of the total investment portfolio at June 30, 2009, gross of investment receivables and cash in investment manager accounts and net of payables and securities lending collateral. Although these values are the appropriate industry standard basis for calculation of investment returns, they differ from the "Investments at fair value" shown elsewhere in the Financial section, which are reported using GASB Statement No. 25 financial statement standards.

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment to GASB Statement No. 3, addresses common deposit and investment risks related to credit risk, concentration of credit risk, custodial credit risk, interest rate risk, and foreign currency risk. Each risk identified in Statement No. 40, as it relates to the System, is discussed in the remainder of this note.

No System-wide formal policy exists relating to specific investment-related risks identified in GASB Statement No. 40. Each portfolio is managed in accordance with an investment contract that identifies and seeks to control the various types of investment-related risks.

Prior-year disclosures for investment type, credit risk quality ratings, and effective duration have not been included because the information is not believed to be of continuing significance.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to IPERS. Credit risk associated with all fixed income holdings, including collateral for repurchase agreements and securities lending collateral, has been included in this report. The following tables summarize IPERS' fixed income portfolio exposure levels and credit quality ratings. The table includes \$274.7 million of U.S. Treasury obligations and \$74.4 million of GNMA obligations. These securities are explicitly guaranteed by the U.S. government and represent 4.1 percent of the total Fund's fixed income exposure. Therefore, as of June 30, 2009, IPERS' fixed income assets that are not explicitly government-guaranteed represented 95.9 percent of the fixed income portfolio.

Credit Risk – S&P Quality Ratings

(Dollar values expressed in thousands)

June 30, 2009

	Total	TSY	AGY	AAA	AA	A	BBB	BB	B	CCC & Below	NR
Pooled funds & mutual funds	\$ 562,890	---	---	\$ 447,880	---	---	---	---	---	---	\$115,010
Treasuries	16,579	\$ 16,245	---	---	---	---	---	---	---	---	334
Government agencies	137,569	---	\$ 136,070	---	---	---	---	---	---	---	1,499
Short-term investments	717,038	16,245	136,070	447,880	---	---	---	---	---	---	116,843
Government agencies	287,490	---	230,722	6,388	---	\$ 34,612	\$ 856	\$ 1,531	---	---	13,381
Government bonds	170,074	121,314	---	19,270	---	13,177	9,167	5,756	---	---	1,390
Government notes	76,684	76,684	---	---	---	---	---	---	---	---	---
Government inflation indexed	76,947	60,483	---	---	---	---	---	---	---	---	16,464
Other government fixed income	39,103	---	---	---	\$ 15,232	934	3,272	19,605	\$ 60	---	---
Government fixed income	650,298	258,481	230,722	25,658	15,232	48,723	13,295	26,892	60	---	31,235
Gov't National Mortgage Assoc.	74,381	---	74,381	---	---	---	---	---	---	---	---
Freddie Mac	284,693	---	284,693	---	---	---	---	---	---	---	---
Fannie Mae	771,783	---	771,783	---	---	---	---	---	---	---	---
Collateralized mort. obligations	58,130	---	43,858	11,500	---	---	---	---	---	---	2,772
Other gov't mortgage-backed	15,171	---	---	---	---	---	14,752	---	419	---	---
Gov't assets & mortgage-backed	1,204,158	---	1,174,715	11,500	---	---	14,752	---	419	---	2,772
Asset-backed securities	795,290	---	---	542,197	52,185	28,682	28,893	10,786	21,840	\$ 13,352	97,355
Corporate bonds	2,238,780	---	---	331,198	126,658	391,340	425,731	376,198	405,934	139,779	41,942
Corporate fixed income	3,034,070	---	---	873,395	178,843	420,022	454,624	386,984	427,774	153,131	139,297
State and local obligations	5,733	---	---	1,298	1,987	2,448	---	---	---	---	---
Private placements	628,252	---	---	64,671	53,320	16,943	59,672	92,391	52,848	26,939	261,468
Misc. other fixed income	21,173	---	---	---	15,936	---	5,218	---	---	19	---
Other fixed income	649,425	---	---	64,671	69,256	16,943	64,890	92,391	52,848	26,958	261,468
Fixed income investments	5,543,684	258,481	1,405,437	976,522	265,318	488,136	547,561	506,267	481,101	180,089	434,772
Convertible preferred stock	2,231	---	---	---	---	---	---	---	---	2,231	---
Convertible corporate bonds	4,381	---	---	---	---	---	1,410	---	2,971	---	---
Convertible investments	6,612	---	---	---	---	---	1,410	---	2,971	2,231	---
Commingled bond funds	2,283,987	---	---	1,801,837	85,193	221,318	175,639	---	---	---	---
Total	\$8,551,321	\$274,726	\$1,541,507	\$3,226,239	\$350,511	\$709,454	\$724,610	\$506,267	\$484,072	\$182,320	\$551,615

Each fixed income portfolio is managed in accordance with an investment contract that is specific as to permissible credit quality ranges and the average credit quality of the overall portfolios. In circumstances where downgrades occurred subsequent to purchase, investment managers are permitted to hold a downgraded security if the manager believes it is prudent to do so. Credit risk for derivative instruments held by the System results from counterparty risk assumed by IPERS. This is essentially the risk the borrower will be unable to meet its obligation. Information regarding IPERS' credit risk related to derivatives is found under the derivatives disclosures on pages 49–51 of these notes. Policies related to credit risk pertaining to IPERS' securities lending program are found under the securities lending disclosures on pages 52–53 of these notes.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of investment in a single issuer. IPERS' guidelines for each investment manager establish limits on investments in any corporate entity. The System has no separate account investment in any specific stock or bond issues of any commercial or industrial organization other than the U.S. government and its instrumentalities whose fair value exceeds 5 percent of the plan net assets available for benefits.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a fixed income investment. This risk is managed within the portfolio using the effective duration (or option-adjusted) methodology. The methodology takes into account optionality on bonds and scales the risk of price changes on bonds depending upon the degree of change in rates and the slope of the yield curve. All of the System's core plus fixed income investment contracts require the effective duration of the manager's portfolio remain between 80 percent and 120 percent of the effective duration measure of a specific fixed income index. For high-yield bond portfolios, the effective duration must remain between 75 percent and 125 percent of the benchmark's effective duration. It is believed the reporting of effective duration found in the following table quantifies to the fullest extent possible the interest rate risk of the System's fixed income assets. Interest rate risks associated with swaps and other derivative instruments are found in the derivatives disclosures on pages 49–51 of these notes. No interest rate futures or options positions will be established which affect the duration or weighted average maturity of the managed account by more than one year.

Effective Duration

(Dollar values expressed in thousands)

June 30, 2009

Investment Type	Fair Value	Effective Duration (Years)
Pooled funds and mutual funds	\$ 562,890	---
Treasuries	16,579	0.20
Government agencies	137,569	0.33
Short-term investments	717,038	0.32
<i>Government agencies</i>	287,490	3.77
<i>Government bonds</i>	170,074	9.54
<i>Government notes</i>	76,684	6.12
<i>Government inflation indexed</i>	76,947	6.54
<i>Other government fixed income</i>	39,103	5.10
Government fixed income	650,298	5.86
<i>Government National Mortgage Association</i>	74,381	2.70
<i>Freddie Mac</i>	284,693	2.59
<i>Fannie Mae</i>	771,783	2.48
<i>Collateralized mortgage obligations</i>	58,130	2.76
<i>Other government mortgage-backed</i>	15,171	3.48
Government assets and mortgage-backed	1,204,158	2.54
<i>Asset-backed securities</i>	795,290	5.30
<i>Corporate bonds</i>	2,238,780	4.61
Corporate fixed income	3,034,070	4.78
State and local obligations	5,733	10.96
<i>Private placements</i>	628,252	4.12
<i>Miscellaneous other fixed income</i>	21,173	4.65
Other fixed income	649,425	4.15
Fixed income investments	5,543,684	4.34
Convertible preferred stock	2,231	0.13
Convertible corporate bonds	4,381	2.84
Convertible investments	6,612	2.03
Commingled bond funds	2,283,987	4.29
Total	\$8,551,321	4.27

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. IPERS' currency policy is to allow its investment managers the discretion to hedge their foreign currency exposures with currency forward contracts, depending upon their views on a specific foreign currency relative to the U.S. dollar. IPERS does not manage currency as a separate asset class, and generally does not allow its investment managers to enter into currency positions greater than 100 percent or less than 0 percent of the underlying asset exposure in their respective portfolios. The only exceptions are (1) as it relates to specific cross-hedging activity, which may be permitted in certain investment manager contracts, and (2) global macroinvestment strategies where the manager is permitted to tactically allocate across several asset classes and strategies, including currency. The foreign currency exposure of the global macro manager was 0.32 percent of the System's total foreign currency exposure on June 30, 2009.

Foreign Currency Risk by Investment Type*(Dollar values expressed in thousands)*

June 30, 2009

	Total	Cash	Cash Equivalents	Forward Contracts	Equity	Fixed Income
Argentine Peso	\$ 1	\$ 1	---	---	---	---
Australian Dollar	102,913	2,685	---	\$ 21,777	\$ 78,451	---
Brazilian Real	15,733	---	---	---	15,733	---
British Pound	126,790	2,527	\$ 1	(17,490)	137,209	\$ 4,543
Canadian Dollar	(20,031)	(72)	---	(20,102)	143	---
Chilean Peso	526	3	---	---	523	---
Chinese Renminbi	3,445	---	---	---	3,445	---
Colombian Peso	1,836	---	---	---	1,836	---
Czech Koruna	1,164	---	---	---	1,164	---
Danish Krone	11,141	---	---	---	11,141	---
Egyptian Pound	3,986	---	---	---	3,986	---
Euro	539,189	1,561	20	(54,711)	577,420	14,899
Hong Kong Dollar	112,083	(1,499)	281	---	113,301	---
Hungarian Forint	1,850	---	---	(830)	2,680	---
Indian Rupee	14,859	---	---	---	14,859	---
Indonesian Rupiah	10,859	---	---	---	10,859	---
Israeli New Shekel	3,043	---	---	(2,433)	5,476	---
Japanese Yen	256,685	4,430	(140)	(30,503)	282,898	---
Malaysian Ringgit	7,659	---	---	---	7,659	---
Mexican Peso	3,843	---	---	(1,094)	4,937	---
New Taiwan Dollar	50,350	14	---	---	50,336	---
New Zealand Dollar	1,690	226	---	1,464	---	---
Norwegian Krone	18,065	---	---	8,433	9,632	---
Philippine Peso	2,843	---	---	---	2,843	---
Polish Zloty	1,314	---	---	(12,689)	826	13,177
Singapore Dollar	17,272	(1,888)	---	---	19,160	---
South African Rand	32,998	---	---	---	32,998	---
South Korean Won	44,325	79	---	---	44,246	---
Swedish Krona	12,576	---	---	2,470	10,106	---
Swiss Franc	81,015	---	---	23,405	57,610	---
Thai Baht	8,888	---	---	---	8,888	---
Turkish New Lira	6,670	---	---	---	6,670	---
Total	\$1,475,580	\$8,067	\$162	\$(82,303)	\$1,517,035	\$32,619

Note: American Depositary Receipts (ADRs) are non-U.S. equity that are issued in U.S. dollars and have no foreign currency risk, and therefore are not included in this schedule.

Derivatives

Certain of the System's external investment managers may be permitted through their individual investment contracts to use derivative instruments, subject to the System's derivative policy contained in its Investment Policy and Goal Statement. (The investment policy can be viewed beginning on page 90 of this document.) Derivatives are contracts or securities whose returns are derived from the returns of other securities, indices, or derivatives. While this definition includes the most common type of derivative, collateralized mortgage obligations (which typically make up a portion of the System's fixed income portfolio), it is also intended to include (but not be limited to) futures, forwards, options, options on futures, swaps, and swaptions. The System's managers are not permitted to utilize derivatives for speculative purposes, but may use them to efficiently access desired markets and to control and manage portfolio risk. Examples of appropriate applications of derivative strategies include hedging interest rate and currency risk, maintaining exposure to a desired asset class while effecting asset allocation changes, duration risk management, augmenting index fund performance through index arbitrage, and portable alpha strategies.

The various derivatives utilized by the System's investment managers are described below. The notional values associated with these derivative instruments are not recorded in the financial statements; however, the fair value amounts of exposure (unrealized gains/losses) are reported in the Statement of Plan Net Assets. IPERS holds investments in limited partnerships and commingled investment funds, which may utilize derivatives from time to time for hedging purposes, and any derivatives held by these types of investment vehicles are not included in the information describing the System's derivatives on pages 49-51.

Futures and Options Contracts

The System had investments in various futures and options during the year. These contracts are reported at their fair value in the Statement of Plan Net Assets. A listing of futures and options contracts outstanding at June 30, 2009, is provided on the next page. Futures and options can offer potentially lower-cost and more efficient alternatives to buying the underlying securities or currency. Futures and options can also serve to minimize certain unwanted risks within the portfolio. The market, currency, and credit risk of the futures were the same as if the System had owned the underlying securities or currency.

IPERS' investment managers cannot use derivatives for speculative purposes. They may use derivatives to access desired markets efficiently, and to control and manage portfolio risk.

Futures Exposure Summary

(Dollar values expressed in thousands)

June 30, 2009

	Expiration Date	Long/Short	Notional Value	Fair Value
Amsterdam Index	July 2009	Long	\$ 3,182	\$ 31
CAC 40 10 Euro	July 2009	Long	12,349	(297)
Hang Seng Index	July 2009	Short	(236)	(2)
IBEX 35 Index	July 2009	Long	9,061	480
10-year U.S. Treasury notes	September 2009	Short	(21,932)	(42)
10-year Japan bond	September 2009	Short	(97,115)	(1,646)
2-year U.S. Treasury notes	September 2009	Long	21,808	(186)
5-year U.S. Treasury notes	September 2009	Long	465,903	(1,292)
DAX Index	September 2009	Short	(6,954)	25
EMINI—S&P 500	September 2009	Long	52,686	(1,189)
Euro Bund	September 2009	Long	1,034	(15)
Eurodollar	September 2009	Long	109,402	606
FTSE 100 Index	September 2009	Long	16,881	(279)
Nikkei Index	September 2009	Long	3,206	76
TOPIX Index	September 2009	Short	(25,032)	(72)
U.S. Treasury bonds	September 2009	Long	103,860	1,243
10-year Australia bond	September 2009	Long	292,433	273
Canada Treasury bond	September 2009	Short	(2,990)	(38)
Long Gilt	September 2009	Long	38,613	863
S&P Canada 60	September 2009	Long	1,330	(34)
S&P/MIB Index	September 2009	Long	4,210	74
SPI 200 Index	September 2009	Long	3,053	(57)
Eurodollar	December 2009	Long	16,521	77
Eurodollar	March 2010	Long	114,869	262
Eurodollar	June 2010	Long	46,101	(74)
Eurodollar	September 2010	Long	70,499	(126)
Total			\$1,232,742	\$(1,339)

Options Exposure Summary

(Dollar values expressed in thousands)

June 30, 2009

	Expiration Date	Long/Short	Option Type	Strike Price	Fair Value
Eurodollar	September 2009	Short	Put	\$ 99.00	\$ (14)
Eurodollar	September 2009	Short	Call	99.25	(42)
U.S. Treasury bond	August 2009	Short	Call	117.00	(251)
U.S. Treasury note	August 2009	Short	Call	115.00	(188)
U.S. Treasury note	August 2009	Short	Call	116.00	(103)
U.S. Treasury note	September 2009	Short	Call	115.50	(339)
U.S. Treasury note	September 2009	Short	Call	118.00	(95)
U.S. Treasury note	September 2009	Short	Call	124.00	(4)
U.S. Treasury note	September 2009	Short	Put	112.00	(28)
U.S. Treasury note	September 2009	Short	Put	116.00	(130)
Total					\$(1,194)

Credit Default Swaps

The System had investments in credit default swaps during the year. The credit default swaps held by the System are derivative instruments that are used to hedge or to replicate investments in debt obligations of corporate bond issuers. The risk of the credit default swap is comparable to the credit risk of the reference security.

At June 30, 2009, the notional value of the credit default swaps held in the System's fixed income portfolio was \$292.7 million. The credit default swaps are reported at a fair value of -\$30.9 million in the Statement of Plan Net Assets.

Interest Rate Swaps

Interest rate swaps are transactions between two parties in which interest payments from different indexes are swapped. Interest rate swaps are often used to alter the portfolios' exposure to interest rate fluctuations, by swapping fixed-rate obligations for floating-rate obligations, or swapping floating-rate obligations for fixed-rate obligations. By utilizing interest rate swaps, the System's investment managers are able to synthetically alter their interest rate exposure and bring it in line with their strategic objectives for interest rate risk. At June 30, 2009, the notional value of the interest rate swaps held in the System's fixed income portfolio was \$53.9 million. All interest rate swaps held by the System are reported at a fair value of \$1.5 million in the Statement of Plan Net Assets.

Total Return Swaps

A total return swap is a contract in which two parties swap payments based on the total return of a reference asset. The reference asset may be any asset, index, or basket of assets. At June 30, 2009, the notional value of the total return swaps held in the System's fixed income portfolio was \$25.0 million. The total return swaps held by the System are reported at a fair value of -\$111,025 in the Statement of Plan Net Assets.

Mortgage-Backed Securities

The System invests in mortgage-backed securities, which are reported in the Statement of Plan Net Assets at fair value based on estimated future cash flows from the interest and principal payments of the underlying mortgages. As a result, mortgage-backed securities prices are sensitive to prepayments by mortgagees, which is more likely in declining interest rate environments. The System invests in mortgage-backed securities to diversify the portfolio and earn the return premium associated with prepayment risk. Details regarding interest rate risks for these investments are included under the interest rate disclosures on pages 46-47.

IPERS diversifies its portfolio by investing in mortgage-backed securities, which earn a return premium associated with prepayment risk.

IPERS could be exposed to risk if the counterparties to derivatives contracts are unable to meet the terms of the contracts. IPERS' investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring procedures. IPERS anticipates that the counterparties will be able to satisfy their obligations under the contracts. Limited partnerships and commingled investment vehicles in which IPERS invests may also have exposure to counterparty risk from the use of derivatives for hedging purposes.

IPERS participates in a securities lending program administered by the Treasurer of State through the custodial bank.

Securities Lending

IPERS participates in the securities lending program administered by the Treasurer of State. The Treasurer of State has selected The Bank of New York Mellon, a AA-rated bank, to serve as the custodian bank for IPERS as well as the lending agent for the securities lending program. In its capacity as lending agent, The Bank of New York Mellon is responsible for operating the program and is permitted to lend any of the securities it holds in custody to broker-dealers and other entities in exchange for collateral.

The Bank of New York Mellon is permitted to accept collateral in the form of cash in U.S. dollars, U.S. government securities, or irrevocable letters of credit. A borrower is required to initially deliver collateral in an amount equal to 102 percent of the fair value of any U.S. securities lent and 105 percent of the fair value of any non-U.S. securities lent. Borrowers are required to provide additional collateral anytime the value of the collateral drops below 100 percent of the value of the security lent plus accrued interest income.

At fiscal year end, IPERS had \$135,783 in credit risk exposure to borrowers because the amounts they owed to IPERS exceeded the amount IPERS owed the borrowers on 18 separate loans. Additional collateral was provided the next business day, eliminating this exposure. The contract with The Bank of New York Mellon requires it to indemnify IPERS if a borrower fails to return the securities on loan or fails to return all of the income attributable to securities on loan. The securities lending contract does not allow IPERS to pledge or sell any collateral securities unless the borrower defaults. As of June 30, 2009, IPERS had securities on loan, including accrued interest income, with a fair value (carrying value) of \$790,177,094 against collateral, including borrower rebate, with a total fair value (carrying value) of \$809,451,718.

The majority of securities loans are open loans, that is, one-day maturity, where the rebate rate due the borrower is renegotiated daily. Either IPERS or the borrower can terminate all securities loans on demand. Cash collateral received from borrowers is invested in a cash collateral investment account, which is managed by The Bank of New York Mellon in accordance with investment guidelines established by the Treasurer of State and reviewed by IPERS. The investment guidelines do not require a matching of investment maturities with loan maturities, but do establish minimum levels of liquidity and other investment restrictions designed to minimize the risks associated with not matching the maturity of the investments with the maturity of the loans. The effective duration of the cash collateral account at June 30, 2009, was 16 days. Credit Quality and Years to Maturity statistics for the cash collateral account at June 30, 2009, are shown in the following separate charts.

Securities Lending Cash Collateral Account

Credit Risk – S&P Quality Ratings

(Dollar values expressed in thousands)

June 30, 2009

Investment Type	Total	AAA	A	BBB	BB	CCC	A-1	Not Rated
Corporate	\$297,467	\$101,854	\$7,765	\$2,997	\$8,107	\$1,203	\$175,541	---
<i>Corporate bonds</i>	175,541	---	---	---	---	---	175,541	---
<i>Corporate asset-backed</i>	121,926	101,854	7,765	2,997	8,107	1,203	---	---
Certificates of deposit	25,061	---	---	---	---	---	25,061	---
Bank notes	14,805	---	---	---	---	---	14,805	---
Mutual funds	84,495	---	---	---	---	---	---	\$ 84,495
Overnight repurchase agreements	329,070	---	---	---	---	---	---	329,070
Total	\$750,898	\$101,854	\$7,765	\$2,997	\$8,107	\$1,203	\$215,407	\$413,565

Securities Lending Cash Collateral Account

Years to Maturity

(Dollar values expressed in thousands)

June 30, 2009

Investment Type	Fair Value	Investment Maturities (Years)		
		Less Than 1	1-5	Greater Than 15
Corporate	\$297,467	\$225,297	\$59,863	\$12,307
<i>Corporate bonds</i>	175,541	175,541	---	---
<i>Corporate asset-backed</i>	121,926	49,756	59,863	12,307
Certificates of deposit	25,061	25,061	---	---
Bank notes	14,805	14,805	---	---
Mutual funds	84,495	84,495	---	---
Overnight repurchase agreements	329,070	329,070	---	---
Total	\$750,898	\$678,728	\$59,863	\$12,307

E. Capital Assets

The IPERS headquarters at 7401 Register Drive is held as a capital asset. Building and land are recorded at cost, including the costs of acquisition and remodeling. The building is being depreciated using the straight-line method and a useful life of 39 years. Land, a nonexhaustible asset, is not depreciated. Other capital assets consist primarily of office equipment, data processing equipment, and software. All purchased equipment is recorded at cost. Depreciation on equipment is computed using the straight-line method based on estimated useful lives ranging from 3 to 10 years. Software is depreciated over 15 years.

A summary of capital assets as of June 30 is as follows:

	2009	2008
Building and improvements	\$ 4,615,114	\$ 4,615,114
Less accumulated depreciation	(1,000,459)	(878,255)
Furniture, equipment and software	12,092,044	8,862,579
Less accumulated depreciation	(1,210,515)	(625,647)
Land (nondepreciable)	500,000	500,000
Total capital assets	\$14,996,184	\$12,473,791

Depreciation expense for the year ended June 30, 2009, was \$1,372,281; \$3,897,401 of equipment and other expenses directly related to I-Que were capitalized.

F. Compensated Absences and Other Postemployment Benefits

IPERS' staff, as State of Iowa employees, participates in the benefits available to all State of Iowa employees. Expenses related to accumulated vacation and sick leave earned by IPERS employees are recorded when earned.

IPERS has recorded liabilities of \$470,551 related to the Sick Leave Insurance Program (SLIP). The SLIP program calculates a dollar value based on the unused sick leave balance to be credited to a retiree's account and used to pay the employer's share of the selected state group health insurance premium.

IPERS has also recorded liabilities for other postemployment benefits (OPEB). The OPEB consists of an implicit rate subsidy, which is the difference between the blended premiums paid by all participants in the State's health care plans and the expected claims for the retiree group. This liability, as determined by the State GAAP (Generally Accepted Accounting Principles) Team, was \$1,294 per full-time employee for a total liability for IPERS of \$102,226.

These accrued liabilities are included in accounts payable and accrued expenses in the Statement of Plan Net Assets on page 36. Details of these plans are provided on a statewide basis in the State of Iowa's CAFR.

(5) CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

On an annual basis, a valuation of the liabilities and reserves of the IPERS Trust Fund is performed by IPERS' actuarial consultant in accordance with Iowa Code section 97B.4(4)(d), in order to determine the amount of contributions required. In addition, based on the IPERS Investment Board's adoption of the actuarial methods and assumptions of the valuation, IPERS' actuary certifies the contribution rate determined thereby as the rate necessary and sufficient for members and employers to fully fund the benefits and retirement allowances being credited for service under Iowa Code chapter 97B.

The Iowa statute provides that IPERS regular members contribute 4.10 percent of pay and their employers contribute 6.35 percent of pay for a total rate of 10.45 percent for fiscal year 2009. Certain employers and their employees in Special Service occupations contribute at actuarially determined

contribution rates. The annual actuarial valuation is performed to determine whether the statutory rate will be sufficient to fund the future benefits expected to be paid by the System within the guidelines established in the IPERS Funding Policy. The statutory rate is first applied to fund the normal cost. The remaining contribution rate is used to amortize the unfunded actuarial liability as a level percentage of payroll. The System's Funding Policy provides for a maximum amortization period of 30 years in order for the System to be considered "fully funded," and further establishes guidelines indicating when the System should consider requesting statutory contribution rate increases.

The actuarially required contributions for IPERS' active members and their employers and the actual contributions made for the years ended June 30, 2007, 2008, and 2009, are as follows.

Fiscal Year	Actuarially Required Contributions	Total Contributions	Percentage Contributed
2007	\$679,671,198	\$566,578,580	83.4
2008	714,455,687	623,314,422	87.2
2009	781,256,323	686,258,726	87.8

The difference between the actuarially required contributions and actual contributions made is due entirely to statutory contribution requirements that differ from the actuarially required contribution rate. To address IPERS' long-term funding needs, in 2006 the Iowa Legislature passed a bill increasing the contribution rate for regular members, the first rate increase since 1979. Regular members make up about 95 percent of IPERS' active membership.

The increase of two percentage points from 9.45 percent to 11.45 percent, with an increase of 0.50 percentage point each year, is being phased in over four years, beginning July 1, 2007. The increase does not affect members in protection occupation positions, who contribute at actuarially determined rates that may change every year.

A more detailed schedule of employer contributions encompassing six years can be found on page 62 of the Required Supplementary Information (RSI) following these notes.

(6) FUNDED STATUS

During fiscal year 2009, IPERS' unfunded actuarial liability increased to \$4.895 billion and the amortization period continued to exceed the 30-year maximum. The funded status of the plan as of June 30, 2009, the most recent actuarial valuation date, is as follows:

Net Actuarial Value of Assets	Actuarial Liability	Percentage Funded	Unfunded Actuarial Liability (UAL)	Annual Covered Payroll*	UAL as a % of Covered Payroll
\$21,123,979,941	\$26,018,593,823	81.19	\$(4,894,613,882)	\$6,438,643,124	(76.02)

*Annual covered payroll is the amount of wages subject to contributions to IPERS not to exceed the federal covered wage limit in effect at the time the wages are paid. Beginning January 1, 2009, the federal limit is \$245,000.

The schedule of funding progress, presented as RSI on page 61 following the notes to financial statements, presents trend information for six years. This multiyear presentation enables the reader to assess the progress made by IPERS in accumulating sufficient assets to pay pension benefits as they become due.

The primary purpose of an actuarial valuation is to calculate, on the basis of certain assumptions, the present value of benefits that are payable in the future from the Fund to current members and their beneficiaries, as well as the present value of future contributions to be made by these members and their employers. These calculated present values are then used to determine the level of annual contributions to the plan required to pay for these benefits.

The actuarial methods and assumptions used to perform these calculations are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the longer-term perspective of these calculations. The Investment Board has adopted and approved the use of the following assumptions and methods.

Actuarial cost method	Entry age normal
Assets smoothing method	Expected value at the valuation date plus 25% of the difference between the market value and expected value. The actuarial value must fall within a corridor of 80%-120% of market value.
Amortization method	Open period, level percent of pay
Amortization period	30 years* (open method)
Rate of investment return	7.50%
Projected salary increases	4%-12% depending upon years of service
Mortality tables	RP-2000 Healthy Annuitant Table with adjustments
Inflation rate	3.25% for prices, 4.00% for wages

*GASB Statement No. 25 states that, beginning in fiscal year 2006, the maximum acceptable amortization period for the total unfunded actuarial liability is 30 years. IPERS' Funding Policy also provides for a maximum amortization period of 30 years.

(7) LITIGATION AND CONTINGENCIES

IPERS is party to various lawsuits or threatened lawsuits. IPERS is the lead plaintiff in three federal class action lawsuits: *In re Mills Corporation*, *In re Bridgestone/Firestone*, and *In re MF Global*. In these cases IPERS is alleging the defendants violated the Securities Act of 1933 and/or the Securities and Exchange Act of 1934 by making false and misleading statements to investors. IPERS is aggressively pursuing its remedies in these lawsuits to maximize recovery. The initial calculation of damages for IPERS for *In re Mills Corporation* is approximately \$2.4 million. The initial calculation of damages for IPERS for *In re Bridgestone/Firestone* is between \$700,000 and \$1.6 million. The initial calculation for damages for IPERS for *In re MF Global* is approximately \$1.6 million.

A settlement was reached in the *In re Bridgestone/Firestone* class action litigation in the amount of \$30.0 million. This settlement received approval by the district court. The claims administration process has been initiated. Until all claims are submitted and either accepted or rejected by the district court, it is premature to estimate the value of IPERS' recovery.

A settlement has been reached in the *In re Mills Corporation* class action litigation in the amount of \$203.0 million, plus interest. This settlement received approval by the district court. The claims administration process has been initiated. Until all claims are submitted and either accepted or rejected by the district court, it is premature to estimate the value of IPERS' recovery.

A class action complaint was filed with the court in the *In re MF Global* litigation. The defendants responded with a Motion to Dismiss the class action litigation. The district court judge ruled in favor of the defendants, and IPERS, along with other co-lead plaintiffs, has filed an appeal of this decision.

IPERS is aggressively pursuing its financial interests before the Commodity Futures Trading Commission (CFTC) in ECF Case 09-cv-1705[GBI], the Securities Exchange Commission (SEC) in ECF Case Civil Action No: 09-CV-1749[GBI], and in the U.S. District Court for the Southern District of New York which has jurisdiction of these cases. The complaints allege that, from at least 1996 to the present, Steven Walsh and Paul Greenwood fraudulently solicited approximately \$1.3 billion from individuals and entities, including IPERS, through Westridge Capital Management (WCM), WG Trading Company, and other entities. IPERS terminated its contract with WCM on February 17, 2009. The U.S. District Court for the Southern District of New York appointed a receiver to take custody of all assets associated with the actions by the CFTC and SEC, including IPERS' assets. The last reported value by WCM of IPERS' assets was \$291.1 million at January 31, 2009. On May 27, 2009, in a report filed by the receiver with the U.S. District Court for the Southern District of New York, the receiver confirmed the amount reported by WCM. In this same report, however, the receiver said that the total assets of the defendants will be insufficient to pay the claims of all individuals and entities who invested in WCM and other entities controlled by defendants Walsh and Greenwood.

According to the Financial Accounting Standards Board, specifically SFAS #5 "Accounting for Contingencies," a loss contingency is accrued in the financial statements if two criteria are met. First it must be probable that an asset has been impaired or a liability has been incurred. Second, the amount of loss can be reasonably estimated. Based on the receiver's report of May 27, 2009, it appears that a reasonable estimate of the potential recovery of IPERS' investment in WCM can be determined. Based on the forty percent shortfall in assets reported by the receiver, IPERS' management determined that the market value of IPERS' assets should be written down to \$174.7 million (\$291.1 million × 60 percent). The unrealized loss of \$116.4 million has been reflected in IPERS' financial statements as of June 30, 2009.

IPERS is also aggressively defending a case filed in Polk County District Court, Iowa. The case is captioned *Robert J. Brunkhorst v. Iowa Public Employees' Retirement System*, CV No. 104520. Mr. Brunkhorst filed a claim under the Iowa Tort Claims Act alleging IPERS failed to implement the actuarial cost method for service purchase buy-backs in a timely fashion, causing a loss to the IPERS Trust Fund. IPERS denies the allegation. The State Appeal Board denied the claim, prompting the filing of this action in Polk County District Court. IPERS filed a Motion to Dismiss that was granted by the Polk County District Court. Mr. Brunkhorst appealed the dismissal of his case to the Iowa Supreme Court. The Iowa Supreme Court transferred the appeal to the Iowa Court of Appeals. The Iowa Court of Appeals ruled in favor of the Plaintiff. This decision was appealed to the Iowa Supreme Court. The Iowa Supreme Court affirmed the decision of the Iowa Court of Appeals and the case has been remanded to the Polk County District Court. IPERS continues to defend this case on the merits. IPERS continues to believe that there is no merit to this litigation.

IPERS is also aggressively participating in the defense of a class action lawsuit against most agencies of Iowa state government. This case was filed in Polk County District Court. The complaint alleges a pattern of racial discrimination in the hiring and promotion practices in Iowa state government. The complaint makes one specific allegation against IPERS. IPERS has thoroughly examined this allegation and has concluded there is no merit to this claim. IPERS will continue to aggressively defend its position through providing assistance to the Iowa Attorney General.

Through an investment made by Oaktree Capital Management, IPERS holds a debtor-in-possession (DIP) loan and second-priority DIP loan (also known as the roll-up DIP) of Lyondell Chemical Company, which is currently in bankruptcy. The market value of these loans is approximately \$4.5 million. The Wilmington Trust Company, acting on behalf of Lyondell senior unsecured debt holders, has filed a lawsuit challenging the validity of the loans and their priority over the unsecured bonds. IPERS is one among dozens of defendants in this lawsuit. IPERS believes this suit is without merit because, in December 2008, the bankruptcy court approved these loans after the petition for bankruptcy was filed. This gives IPERS a higher priority interest in the bankruptcy estate than the unsecured debt holders. IPERS is hiring counsel to defend its interest in this lawsuit.

(8) COMMITMENTS

At June 30, 2009, IPERS had commitments to fund an additional \$1.675 billion to various private equity/debt partnerships and real estate investment managers.

(9) PENSION AND RETIREMENT BENEFITS

The System is a participating employer in IPERS, which is a cost-sharing, multiple-employer, defined benefit public employee retirement system designed to provide retirement, disability, and death benefits to members and beneficiaries. Iowa Code section 97B.11 establishes the contribution provisions of the plan that apply to IPERS.

The State statute required contributions of 4.10 percent by regular members and 6.35 percent by their employers for FY2009. Required contributions by regular members and employers were 3.90 percent and 6.05 percent, respectively, for fiscal year 2008, and 3.70 percent and 5.75 percent, respectively, for fiscal year 2007. The System's contributions to IPERS for the years ended June 30, 2009, 2008, and 2007, were \$335,516, \$316,524, and \$294,471, respectively, equal to the statutorily required contributions for each year.

(10) NET ASSETS HELD IN TRUST FOR PENSION BENEFITS

There is only one IPERS Trust Fund where all member contributions, employer contributions, and investment income is pooled. However, within IPERS there are three distinct groups, each characterized by different benefit levels and different membership demographics. Due to these unique characteristics, each group has its own separate contribution rate. In order to calculate that contribution rate, it is necessary to separately identify the liabilities and assets associated with each group.

Due to continued data improvements and preparations necessary to implement the new I-Que system, IPERS is now able to provide more complete data to the actuary. As a result, the actuaries are able to provide a more refined measurement of the actuarial liabilities. This refinement of accounting and actuarial processes makes an incremental improvement in how liabilities are determined and assets are classified. Assets of members with service in more than one membership group are aggregated in a single group, as noted on the "transfers between groups" line on the following table. The end result is a closer match of liabilities with assets and therefore a more refined contribution rate.

FINANCIAL

Following is a summary of the net assets held in trust for each of the designated groups:

	Regular Membership*	Special Service Group 1†	Special Service Group 2‡	FED Reserve§	Total
Total as of June 30, 2008	\$20,609,292,108	\$379,926,642	\$856,409,556	\$524,966,683	\$22,370,594,989
Additions					
Contributions	632,308,848	12,731,822	41,218,056	---	686,258,726
Buy-backs/buy-ins	8,952,266	70,215	278,190	---	9,300,671
Investment and misc. income	(3,530,813,734)	(65,586,877)	(149,764,290)	(85,056,904)	(3,831,221,805)
Total additions	(2,889,552,620)	(52,784,840)	(108,268,044)	(85,056,904)	(3,135,662,408)
Deductions					
Benefit payments	1,076,766,225	14,988,650	22,900,588	68,463,353	1,183,118,816
Member and employer refunds	30,560,299	790,184	2,986,970	---	34,337,453
Administrative expenses	10,525,647	70,742	300,477	---	10,896,866
Investment expenses	29,987,412	557,033	1,271,957	722,393	32,538,795
Total deductions	1,147,839,583	16,406,609	27,459,992	69,185,746	1,260,891,930
Preliminary net assets	16,571,899,905	310,735,193	720,681,520	370,724,033	17,974,040,651
Transfers between groups	20,822,225	1,778,613	(22,600,838)	---	---
Adjusted net assets as of					
June 30, 2009	\$16,592,722,130	\$312,513,806	\$698,080,682	\$370,724,033	\$17,974,040,651

*Includes QBA Fund income and benefit payments.

†Sheriffs and deputies.

‡All other protection occupation members.

§Favorable Experience Dividend.

(11) QUALIFIED BENEFITS ARRANGEMENT (QBA)

In FY2006, IPERS implemented the Qualified Benefits Arrangement authorized in 1998 legislation now codified as Iowa Code section 97B.49I. The purpose of the QBA is to permit IPERS retirees to receive the amount of their calculated monthly benefit that exceeds the IRS limits under IRC section 415(b). The QBA is maintained as a separate trust arrangement and no commingling with the IPERS Trust Fund is permitted. The QBA is funded by employer contributions on an as-needed basis and is therefore fully funded.

(12) SUBSEQUENT EVENT

Capital markets have improved since June 30, 2009, due mainly to the massive stimulus programs undertaken by the Federal Reserve and the world's central banks. As a result, IPERS' investment portfolio has experienced investment gains since fiscal year-end. IPERS estimates the fair value of its investment portfolio has increased to approximately \$19.5 billion as of October 31, 2009, which would represent an increase of \$1.5 billion from the value reported in the financial statements.

Required Supplementary Information*Schedule 1***Schedule of Funding Progress**

Last 6 fiscal years

Fiscal Year Ended June 30	Net Actuarial Value of Assets	Actuarial Liability	Percentage Funded	Unfunded Actuarial Liability (UAL)	Annual Covered Payroll*	UAL as a % of Covered Payroll
2004	\$16,951,942,539	\$19,128,410,606	88.62	\$(2,176,468,067)	\$5,072,027,906	(42.91)
2005	17,951,490,071	20,240,098,667	88.69	(2,288,608,596)	5,236,860,886	(43.70)
2006	19,144,036,519	21,651,122,419	88.42	(2,507,085,900)	5,523,863,321	(45.39)
2007	20,759,628,415	23,026,113,782	90.16	(2,266,485,367)	5,781,706,199	(39.20)
2008	21,857,423,183	24,522,216,589	89.13	(2,664,793,406)	6,131,445,367	(43.46)
2009	21,123,979,941	26,018,593,823	81.19	(4,894,613,882)	6,438,643,124	(76.02)

*Annual covered payroll is the amount of wages subject to contributions to IPERS not to exceed the federal covered wage limit in effect at the time the wages are paid. Beginning January 1, 2009, the federal limit is \$245,000.

See Note 6 on page 55 for additional information on IPERS' funded status and the actuarial assumptions and methods used to perform these calculations.

Schedule 2
Schedule of Employer Contributions
 Last 6 fiscal years

Fiscal Year	Actuarially Required Contributions	Total Employer Contributions	Percentage Contributed
2004			
Regular Membership	\$309,006,609	\$279,167,801	90.3
Special Service Group 1	5,489,797	5,488,239	100.0
Special Service Group 2	14,263,836	14,267,627	100.0
2004 Total	328,760,242	298,923,667	90.9
2005			
Regular Membership	341,552,685	289,220,242	84.7
Special Service Group 1	6,236,611	6,236,770	100.0
Special Service Group 2	15,391,729	15,385,375	100.0
2005 Total	363,181,025	310,842,387	85.6
2006			
Regular Membership	364,424,911	301,566,112	82.7
Special Service Group 1	6,228,675	6,228,836	100.0
Special Service Group 2	16,888,833	16,881,866	100.0
2006 Total	387,542,419	324,676,814	83.8
2007			
Regular Membership	387,578,925	318,762,838	82.2
Special Service Group 1	6,577,652	6,577,652	100.0
Special Service Group 2	17,723,013	17,722,840	100.0
2007 Total	411,879,590	343,063,330	83.3
2008			
Regular Membership	408,882,080	353,470,318	86.4
Special Service Group 1	6,301,171	6,301,171	100.0
Special Service Group 2	17,644,966	17,645,261	100.0
2008 Total	432,828,217	377,416,750	87.2
2009			
Regular Membership	441,951,764	384,221,534	86.9
Special Service Group 1	6,365,911	6,365,911	100.0
Special Service Group 2	24,736,688	24,736,688	100.0
2009 Total	473,054,363	415,324,133	87.8

The difference between the actuarially required contributions and actual contributions made is due entirely to statutory contribution requirements that differ from the actuarially required contribution rate.

See Note 5 on page 54 for additional information on the actuarial valuation.

Other Supplementary Information*Schedule 1***Investment Income by Specific Source**

Years ended June 30, 2009 and 2008

	2009	2008
Interest income—short term	\$ 2,441,364	\$ 4,744,357
Interest income on bonds	375,863,433	413,492,775
Dividend income	64,652,316	87,681,256
Real estate funds	109,744,387	73,429,312
Private equity/debt funds	(8,030,426)	(19,671,161)
Other income	66,744	298,911
Investment income	544,737,818	559,975,450
Loss on investments	(4,218,514,292)	(1,035,432,106)
Currency gain/(loss)	(127,089,287)	186,652,292
Net depreciation in fair value of investments	(4,345,603,579)	(848,779,814)
Securities lending income	14,845,898	72,136,756
Securities lending net depreciation in fair value of collateral pool	(36,734,366)	(22,066,300)
Securities lending income/(loss)	(21,888,468)	50,070,456
Total investment loss	\$(3,822,754,229)	\$(238,733,908)

Schedule 2
Schedule of Administrative Expenses*
 Years ended June 30, 2009 and 2008

	2009	2008
Personnel		
Salaries & wages	\$ 5,311,286	\$5,619,394
Travel	127,223	107,495
Professional and technical services		
Professional	1,348,151	1,307,628
Actuary	106,400	112,125
Computer support services	1,374,094	1,185,295
Auditing	98,673	70,570
Communications		
Telephone	153,071	366,739
Printing	318,904	175,931
Other expenses		
Supplies	491,591	518,563
Utilities	66,894	72,284
Depreciation	1,372,281	239,543
Loss on disposal of fixed assets	---	500
Repairs	8,429	7,439
Rent	12,165	4,971
Miscellaneous	107,704	96,990
Total administrative expenses	\$10,896,866	\$9,885,467

*Administrative expenses related to investments do not appear here but are included in the investment expenses reported on the Schedule of Investment Related Expenses on the following page.

Schedule 3
Schedule of Investment Related Expenses
 Years ended June 30, 2009 and 2008

	2009	2008
Barclays Global Investors	\$ 477,982	\$ 954,567
Mellon Capital Management	630,761	589,909
RCM	1,717,177	2,001,016
Wellington Management Company LLP	<u>528,964</u>	<u>1,111,547</u>
Total domestic equity	<u>3,354,884</u>	<u>4,657,039</u>
BlackRock Financial Management, Inc.	882,214	1,064,874
Mellon Capital Management	275,426	40,860
Oaktree Capital Management	3,701,102	2,200,241
Post Advisory	2,872,035	1,247,245
Principal Global Investors	534,954	626,141
Western Asset Management Company	<u>820,743</u>	<u>1,353,340</u>
Total fixed income	<u>9,086,474</u>	<u>6,532,701</u>
Barclays Global Investors	694,475	1,243,856
Emerging Markets Management LLC	1,310,575	2,161,278
GAM USA, Inc.	353,106	68,859
Oechsle International Advisors LLC	3,273,169	2,068,319
Quantitative Management Associates, Inc.	456,314	161,803
Schroder Investment Management North America, Inc.	---	578,765
Wellington Emerging Markets	<u>280,514</u>	<u>---</u>
Total international equity	<u>6,368,153</u>	<u>6,282,880</u>
ING Clarion	6,279,971	2,201,140
INVESCO	1,021,974	794,278
RREEF	1,706,441	3,027,758
RREEF REIT	825,844	1,372,822
TA Associates	(3,174,510)	8,625,043
UBS Realty	<u>1,553,812</u>	<u>(787,639)</u>
Total real estate	<u>8,213,532</u>	<u>15,233,402</u>
Pathway Capital Management	<u>3,186,135</u>	<u>2,896,486</u>
Total private equity/debt	<u>3,186,135</u>	<u>2,896,486</u>
Smith Breeden Associates	178,418	396,253
Western Asset Management Company	117,180	281,968
Westridge Capital Management	---	<u>1,282,985</u>
Total liquidation account	<u>295,598</u>	<u>1,961,206</u>
The Townsend Group	33,000	132,000
Wilshire Associates	<u>345,000</u>	<u>239,000</u>
Total investment consultant fees	<u>378,000</u>	<u>371,000</u>
Master custodian bank fees	170,889	176,034
Treasurer of State	<u>93,223</u>	<u>86,993</u>
Total custody expenses	<u>264,112</u>	<u>263,027</u>
Investment staff and board expenses	1,013,727	896,173
Miscellaneous expenses	<u>378,180</u>	<u>181,583</u>
Total other investment expenses	<u>1,391,907</u>	<u>1,077,756</u>
Total investment related expenses	<u>\$32,538,795</u>	<u>\$39,275,497</u>





INVESTMENTS



Investment Overview

Investment Results

Investment Policy and Goal Statement

IAPERS

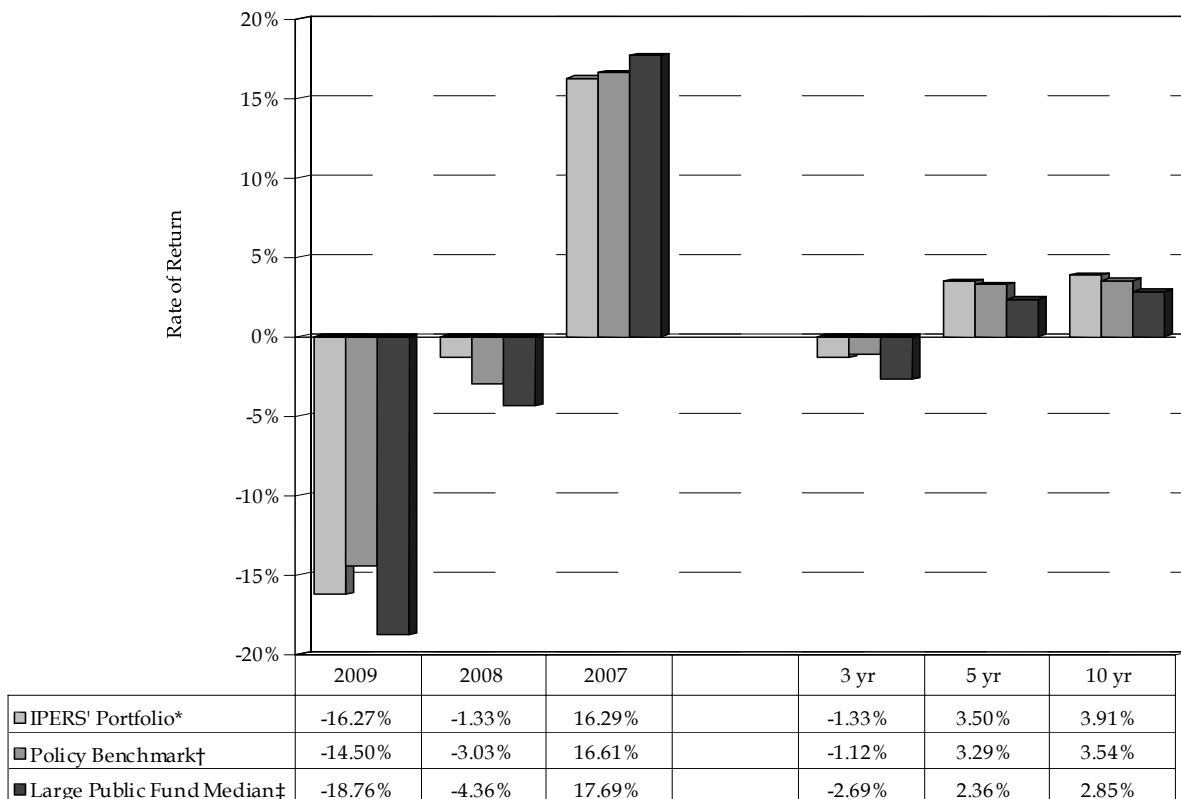
Investment Overview

This section of the Comprehensive Annual Financial Report was compiled by IPERS' investment staff using information provided by consultants Wilshire Associates and the Townsend Group, and by the System's custodian bank, The Bank of New York Mellon. Except where noted otherwise, investment returns are based on investment asset fair values and calculated using time-weighted return calculation methodologies.

Investment returns play an important role in the funded status of the IPERS Trust Fund. The IPERS Investment Board has adopted an Investment Policy and Goal Statement, the objective of which is to benefit the members of the System by maximizing the total rate of return on investments within prudent risk parameters. The System's overall investment performance goal is to achieve an annualized rate of return which, when combined with the required employer and employee contributions to the System, will meet or exceed the benefits and administrative funding requirements of the System. In addition, specific investment return objectives are adopted by the Investment Board for the Trust Fund in total and for each asset class in which IPERS invests. Please see the Investment Policy and Goal Statement at the end of this section for a listing of these investment return objectives.

Annualized Investment Performance Summary

For the periods ended June 30



*Net of fees.

†A benchmark composed of market indices with weightings reflective of IPERS' asset allocation targets.

‡Trust Universe Comparison Service (TUCS) Public Funds with Total Market Value Greater than \$1 billion.

INVESTMENTS

The fair values reported in the Investments section are industry-based calculations that differ from those used in the Financial and Actuarial sections of this report.

The System's investments are managed by professional investment management firms based upon statutory investment authority, the investment policies adopted by the IPERS Investment Board, and a detailed service contract with each manager. The Investment staff coordinates and monitors the investment of the Trust Fund's assets and assists the Investment Board in the formulation and implementation of investment policies and long-term investment strategy.

The IPERS net investment portfolio fair values reported in this section and used as the basis for calculating investment returns differ from those shown in the Financial and Actuarial sections of this report. The values used in this section are the appropriate industry standard basis for investment return calculation. Compared to the fair values shown in this report's Financial and Actuarial sections, the values reflected in this Investments section are gross of investment receivables and cash in investment manager accounts and net of payables and securities lending collateral.

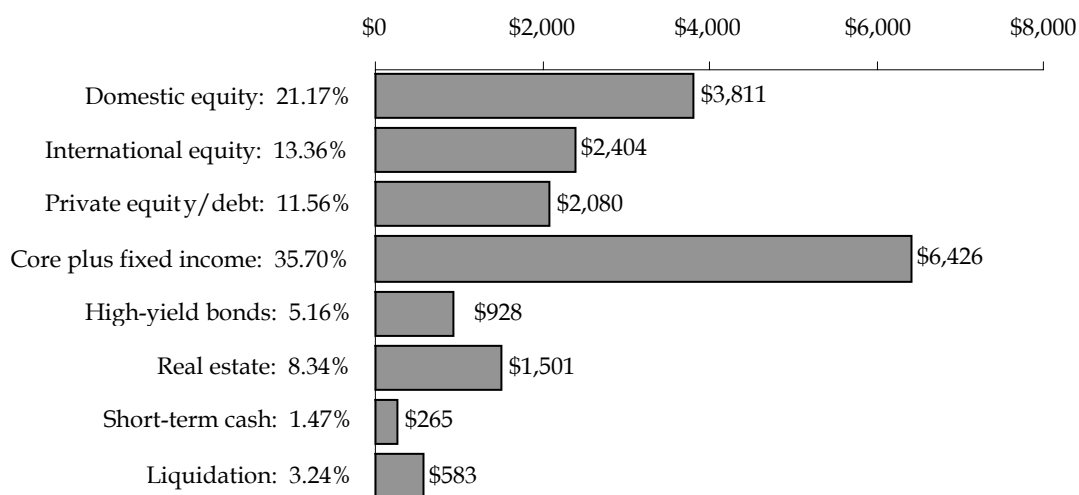
Asset Allocation and Diversification

Asset allocation is a process designed to construct an optimal long-term asset mix that achieves a specific set of investment objectives. Each year the IPERS Investment Board adopts an Investment Policy and Goal Statement that describes the System's investment objectives and establishes the System's asset allocation policy as designed to meet those objectives. The asset allocation policy is adopted to provide for diversification of assets in an effort to maximize the investment return to the System consistent with prudent levels of market and economic risks. Of all the components of investment strategy formulation, the determination of asset allocation targets is the most important decision.

Summary of Investments by Asset Class

(Fair value in millions)

As of June 30, 2009



In addition to asset class diversification, the System also seeks to diversify the investment portfolio by investment management styles. The success of a particular investment style tends to be cyclical. For example, “growth” stock investing may outperform “value” stock investing for several quarters, or perhaps several years, until that trend is inevitably reversed for a subsequent period. By utilizing several investment management firms with a variety of investment styles, the investment performance at the total Fund level is not dependent upon the success of one particular investment style.

The System also requires its investment managers to diversify their portfolios at the security level. Managers are required to diversify across sectors, industries, and individual securities. The System develops specific contractual investment guidelines for each manager that control the risk of high concentrations in a particular sector, industry, or security.

Overall, diversification of the System’s assets among various asset classes, investment management styles, and individual securities enhances the potential of the IPERS investment portfolio to achieve its long-term objectives.

Capital Markets Commentary

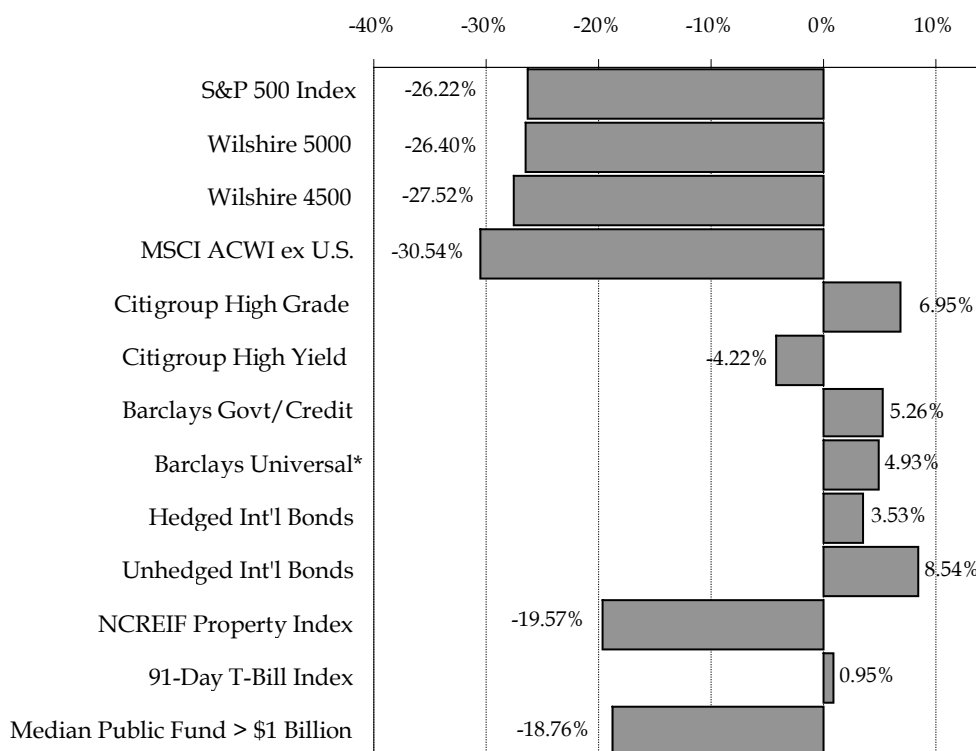
The capital markets experienced two very different environments in fiscal year 2009. In the first three quarters of the fiscal year, the continued deleveraging of the global economy and the near collapse of the global financial system produced a lot of fear and large negative investment returns in nearly every asset class. However, there were signs of recovery and cautious optimism in the final quarter of the fiscal year, and nearly every asset class rebounded as stimulus plans calmed a jittery market.

For example, the Wilshire 5000 stock index produced an investment return of -36.98 percent for the first three quarters of the fiscal year, but posted a 16.79 percent gain for the final quarter of the fiscal year. In contrast, the U.S. Treasury market, which investors flee to in times of financial crisis, produced a return of 6.41 percent in the first three quarters of the fiscal year, but posted a -0.87 percent return for the final quarter, as measured by the Merrill Lynch 1-5 Year U.S. Treasury Index.

The massive government bailouts of financial institutions and unprecedented fiscal and monetary stimulus measures worked to prevent what could have been another Great Depression. But there is still a great deal of debate and concern about the long-term impact of these policy actions, and the ability of Western economies to grow under such unprecedented debt loads. Future higher inflation, a weakening U.S. dollar, stubbornly high unemployment, and potentially slower economic growth for many years to come are some of the greatest risks facing investors now.

Fear and risk aversion made for an ugly year in any of the riskier asset classes, especially equity and commercial real estate, as shown in the following table:

Fiscal Year 2009 Market Returns



*The Lehman market indexes were purchased by Barclays Capital in September 2008. The Lehman U.S. Universal Index did not undergo any changes in constituents or calculation methodology as a result of the purchase; it was renamed the Barclays Capital U.S. Universal Index.

Despite the double-digit gain in the final quarter of the fiscal year, the U.S. equity market, as measured by the Wilshire 5000 Index, produced a return of -26.40 percent for the fiscal year. In the large capitalization stocks, growth outperformed value, but both styles produced significant negative returns. Value beat growth in the small capitalization stocks in FY2009, as shown in the table.

Wilshire Style Index	FY2009 Return
Large Growth	-25.53%
Large Value	-27.57%
Small Growth	-25.33%
Small Value	-22.49%

Due to a recession-driven reduction in demand, the price of a barrel of crude oil fell from \$140 at June 30, 2008, to \$68 by the end of fiscal year 2009, making the energy sector the worst-performing sector of the Wilshire 5000 Index, with a return of -42.98 percent, followed by the materials and industrial sectors, which returned -40.33 percent and -35.33 percent for the fiscal year, respectively. The best-performing sectors were health care with a return of -10.90 percent and consumer staples with a return of -11.35 percent.

While U.S. stocks outperformed international stocks in FY2009, due mainly to a modest late-year improvement in the outlook for the U.S. economy, it was little comfort to the global equity investor, as stock markets across the world recorded large losses for the fiscal year. The Morgan Stanley Capital International (MSCI) All Country World ex U.S. index, a performance benchmark for equities of non-U.S. companies, returned -30.54 percent for the fiscal year ended June 30, 2009.

The emerging markets region produced a return of -26.80 percent for the fiscal year, while European and Pacific stocks produced returns of -34.20 percent and -24.50 percent, respectively, as calculated in U.S. dollars.

The fixed income market posted positive results in most sectors for fiscal year 2009, with most of the good news coming from the strong performance of mortgage securities (mainly those issued or backed by U.S. government-sponsored agencies), as well as U.S. Treasury bonds and high-quality investment-grade corporate bonds. Bond market performance was aided by the Federal Reserve, which reduced the federal funds rate from 2.00 percent to a target range of 0.00 to 0.25 percent over the course of the fiscal year as they tried to head off deflation and spur on the economy. As measured by the Barclays Universal Index, the fixed income market returned 4.93 percent for the fiscal year ended June 30, 2009. The high-yield sector of the fixed income market returned -4.22 percent and the high-grade corporate bond sector returned 6.95 percent. The mortgage sector was the best-performing sector in fiscal year 2009, returning 9.38 percent for the period.

IPERS' fixed income investments posted positive returns.

The U.S. commercial real estate market suffered from the effects of the economic slowdown in fiscal year 2009. The NCREIF Property Index, a commonly cited measure of privately traded commercial real estate values and income, returned -19.57 percent for the one-year period ended June 30, 2009. This was down from 9.20 percent for the one-year period ended June 30, 2008. Publicly traded real estate investment trusts (REITs) performed much worse in fiscal year 2009, with the Wilshire Real Estate Investment Trust Index posting an annual return of -45.26 percent for the fiscal year.

Private equity investments also produced negative results in FY2009. The lack of financing through the credit markets, an increasing number of distressed sellers in the secondary market, and limited investment activity were all factors in the negative results for the asset class. The overall private equity asset class, as measured by *Venture Economics'* data, produced a return of -18.80 percent in FY2009.

Investment Portfolio Assets¹

At the close of fiscal year 2009, IPERS' net investment portfolio assets had a fair value of \$17.997 billion. The change in fair value represents a decrease of \$4.358 billion from the \$22.355 billion net investment asset fair value as of June 30, 2008. The largest factor contributing to the decrease in net investment asset fair value was the investment portfolio return of -16.27 percent, which is more fully addressed below.

Investment Results

IPERS posted a total portfolio investment return of -16.27 percent for the fiscal year ended June 30, 2009. This return was well below the objective of providing an investment return at or above the rate of inflation (as measured by the Consumer Price Index, or "CPI") plus 3 percent; that objective was 1.58 percent for fiscal year 2009. The Fund's return was also well below the investment return assumption used by IPERS' actuary, which is 7.50 percent per year, and trailed the -14.50 percent return of IPERS' "policy benchmark," a set of market indices and weightings to those indices that reflect IPERS' target asset class allocations.

The Fund's one-year return did best the -18.76 percent median return of the Trust Universe Comparison Service's (TUCS) Universe of Public Pension Funds with Assets Greater than \$1 billion, due mainly to IPERS' policy of having a lower allocation to stocks and a higher allocation to bonds relative to its peers.

Core plus fixed income investments produced IPERS' highest return in fiscal year 2009 at 2.91 percent.

IPERS' strongest return for the fiscal year was provided by its core plus fixed income portfolio at 2.91 percent, followed by the high-yield fixed income portfolio at -1.97 percent. The lowest returns came in the domestic equity portfolio, which produced a return of -31.43 percent, followed by international equities, which produced a return of -29.64 percent for the fiscal year.

For the five years ended June 30, 2009, IPERS' total Fund annualized return of 3.50 percent exceeded the policy benchmark return of 3.29 percent and the TUCS Public Pension Funds with Assets Greater than \$1 billion universe median annualized return of 2.36 percent. IPERS' 10-year annualized return of 3.91 percent outpaced the policy benchmark return of 3.54 percent and the aforementioned TUCS universe median return of 2.85 percent, but trailed the objective of earning at least CPI plus 3 percent (5.64 percent annualized). IPERS' 10-year annualized return did not exceed the 7.50 percent actuarial assumed investment return objective. IPERS' investment returns, net of fees, for the total portfolio and for each asset class over various time periods are shown in the following table. For comparison purposes, the benchmark for each asset class is also shown.

¹Investment portfolio assets are based on fair value of the total investment portfolio at June 30, 2009, and June 30, 2008, gross of investment receivables and cash in investment manager accounts and net of payables and securities lending collateral. Although these values are the appropriate industry standard basis for calculation of investment returns, they differ from the "Investments at fair value" shown in the Financial section of this report, which are reported using GASB Statement No. 25 financial statement standards.

INVESTMENTS

The table below does not provide returns beyond 10 years. However, the IPERS Fund investment returns for the 15-year and 20-year periods ending June 30, 2009, were 8.00 percent and 7.96 percent, respectively. To see the annual investment returns for the IPERS Fund for each year since 1981, please turn to the chart “Investment Returns 1981–2009” in the Statistical section on page 141.

Rates of Return

For periods ended June 30, 2009*

Asset Class	Annualized Returns (%)			
	1-Year	3-Year	5-Year	10-Year
Total Fund				
IPERS	-16.27	-1.33	3.50	3.91
Policy benchmark [†]	-14.50	-1.12	3.29	3.54
CPI + 3 percent	1.58	5.06	5.60	5.64
Actuarial assumed investment return	7.50	7.50	7.50	7.50
TUCS Public Funds >\$1 billion universe median	-18.76	-2.69	2.36	2.85
Domestic equity				
IPERS	-31.43	-11.42	-3.39	-1.99
Dow Jones Wilshire 5000	-26.40	-8.13	-1.60	-1.32
International equity				
IPERS	-29.64	-6.02	4.17	2.90
Custom benchmark	-30.54	-5.35	4.95	2.94
Core plus fixed income				
IPERS	2.91	4.86	4.44	5.89
Custom benchmark	4.93	5.93	4.96	6.03
High-yield fixed income				
IPERS	-1.97	2.96	4.48	5.19
Custom benchmark	-4.22	1.82	3.77	4.73
Private equity/debt[‡]				
IPERS	-25.23	6.22	14.10	7.20
Wilshire 5000 + 3 percent	-23.40	-5.13	1.40	1.68
Real estate				
IPERS	-25.28	-3.21	5.70	7.92
Custom benchmark	-21.94	-1.25	6.82	7.93
Short-term cash[§]				
IPERS	1.10	3.84	3.75	3.79
U.S. Treasury bills	0.95	3.25	3.17	3.23

*All returns are time-weighted returns. 3-year, 5-year, and 10-year returns are annualized.

[†]The policy benchmark consists of 28 percent Wilshire 5000, 15 percent MSCI ACWI ex U.S., 34 percent Barclays Universal, 5 percent Citigroup High-Yield Cash-Pay Capped, 10 percent Wilshire 5000 plus 3 percent, and 8 percent of a weighted benchmark consisting of 85 percent NCREIF's National Property Index and 15 percent Wilshire REIT Index plus 0.25 percent.

[‡]Private equity/debt portfolio returns and benchmark returns are provided here as time-weighted returns to allow comparison to the time-weighted returns used for other asset classes. However, the more appropriate performance measurement for the private equity asset class is a dollar-weighted or internal rate of return (IRR) calculation. See the Private Equity/Debt section of this report for a discussion of the private equity/debt portfolio's performance using IRRs.

[§]Starting in FY2000, short-term cash returns exclude miscellaneous income.

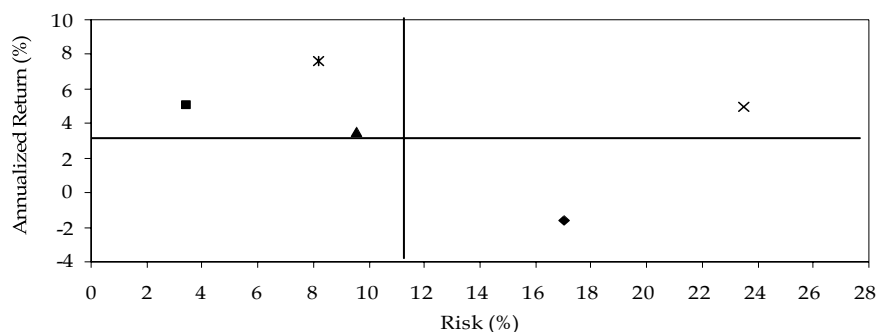
INVESTMENTS

Not only was IPERS' five-year investment return slightly higher than the median large public pension fund return, IPERS earned it while taking significantly less risk.

The total return an investment portfolio achieves over the long term is largely determined by the level of risk or volatility of returns that the investor is willing to accept. In general, the greater the volatility of returns, the higher the return has to be over long time periods to compensate the investor for accepting that volatility. A pension fund's willingness to accept additional risk is often the result of its need to achieve or maintain an actuarially sound funding status. Given the disparities in funding levels and the resulting differences in asset allocation which exist among pension funds, it is often difficult, if not impossible, to make a meaningful comparison based solely on their returns. However, a more meaningful comparison can be made if returns are compared on the basis of how much return was earned per unit of risk taken.

The following graph provides a comparison of IPERS' investment return per unit of risk taken for the last five years against the TUCS Universe of Public Pension Funds with Assets Greater than \$1 billion. The vertical line represents the median level of risk (standard deviation of returns) experienced by this universe of funds. The horizontal line represents the median rate of return earned by this same group of funds. IPERS' risk/return characteristics are plotted on the same graph along with selected market indices. As shown in the graph, the return on IPERS' investments for the five years ended June 30, 2009, was slightly higher than the median large public pension fund return, but it was earned with significantly less risk than the median large public pension fund over this time period.

Risk vs. Total Return
Public Funds Greater Than \$1.0 Billion
 5 years ended June 30, 2009



◆ Wilshire 5000	■ Barclays Aggregate	▲ IPERS Fund
× MSCI ACWI - ex U.S.	✱ NCREIF Property Index	

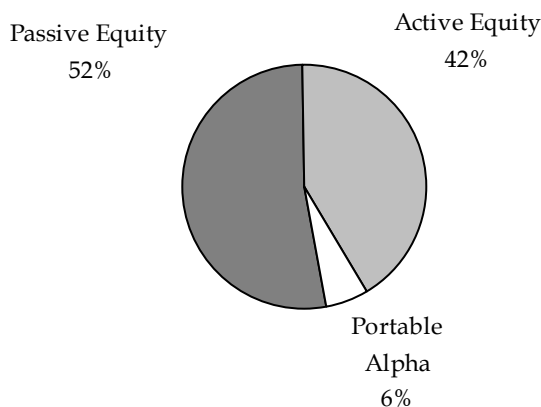
	Annualized Return	Risk (Standard Deviation)
IPERS Total Fund	3.50%	9.31%
Median Fund	2.36%	11.41%
Wilshire 5000	-1.60%	17.04%
Barclays Aggregate	5.02%	3.45%
MSCI ACWI ex U.S.	4.95%	23.49%
NCREIF Property Index	7.60%	8.21%

Domestic Equity

At June 30, 2009, 21.17 percent of IPERS' total portfolio was invested in domestic equities. The total net fair value of the domestic equity portfolio was \$3.811 billion. The portfolio is widely diversified across various equity market sectors and industries and has highly diversified financial characteristics and risk factors that influence the overall return.

Domestic Equity Portfolio

June 30, 2009



The IPERS domestic equity portfolio has three components:

PASSIVE EQUITY. The passive component is divided into large cap and small to mid cap strategies for management purposes and consists primarily of investments in commingled index funds, index futures, and short-term securities. The return objective for each passive strategy is to track, within a certain range, the returns of a broad market index. The passive component is designed to add diversity to the overall portfolio while complementing the active investment styles of IPERS' other domestic equity portfolios. The passive component constitutes an efficient, low-cost means of obtaining market exposure to the domestic stock market.

ACTIVE EQUITY. An actively managed portfolio consists primarily of large capitalization stocks. For management purposes, the portfolio is divided among separate strategies that focus on different investment styles: a value portfolio which focuses on companies undervalued relative to their prospective dividend and earnings growth; a growth portfolio which focuses on companies whose earnings are expected to grow at rates exceeding that of the general economy; and a core portfolio that seeks to add value across all sectors through stock selection. Each investment strategy is expected to exceed an appropriate style benchmark over a full market cycle.

PORTABLE ALPHA. Traditional active equity strategies seek to produce returns in excess of the market (known as "alpha") through sector and stock selection. However, these traditional active strategies have historically produced mediocre excess returns, usually with a lot of volatility.

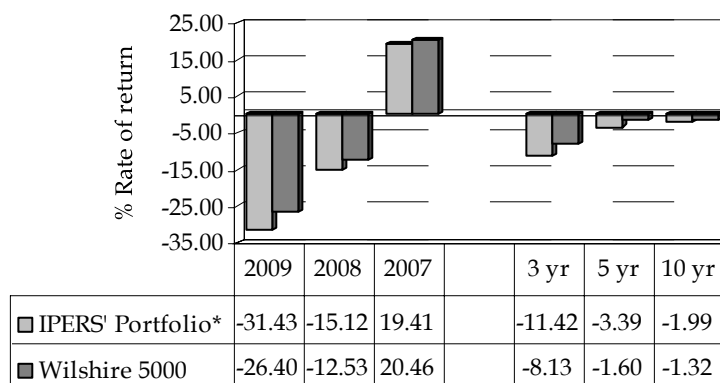
This is generally due to the fact that the U.S. equity market is the most efficient market in the world, making it very difficult for active stock managers to consistently beat the market return. Beginning in 2007 and into fiscal year 2008, IPERS implemented portable alpha strategies within the domestic equity portfolio in an attempt to improve the return of the portfolio without significantly increasing the risk.

Portable alpha strategies attempt to achieve better risk-adjusted returns by blending excess returns (alpha) from a skillful manager, regardless of the asset class where the alpha may be achieved, with the return of any specified market index. Portable alpha strategies should work as long as skillful managers exist and can be identified, the alpha is not highly correlated to the market returns, and derivatives are available that can replicate market returns at a low cost. The concept is that alpha is no longer constrained to the asset class – IPERS can look for alpha anywhere, and then use low-cost derivatives or index funds to obtain the required market exposure so that the System can maintain its strategic asset allocation targets.

Portable alpha strategies within the domestic equity portfolio were especially problematic during the fiscal year, as the severe decline in market liquidity and prices caused the Smith Breeden and Western Asset enhanced cash portable alpha strategies to experience large margin calls. As a result, IPERS' investment staff decided to discontinue the use of stock index futures within the two strategies, but hold the remaining securities in a liquidation account until market liquidity and pricing improved.

Domestic Equity Performance

For the periods ended June 30



*Net of fees.

For the year ended June 30, 2009, IPERS' domestic equity portfolio posted a return of -31.43 percent, compared to -26.40 percent for the Wilshire 5000 Index. Nearly all of the underperformance was attributable to the portable alpha strategies. For the five-year period ended June 30, 2009, the domestic equity portfolio earned an annualized return (net of fees) of -3.39 percent, versus -1.60 percent for the Wilshire 5000 Index.

Liquidation Account

The liquidation account is a temporary account created to hold securities or interests from discontinued portable alpha strategies previously utilized in the domestic equity portfolio.

The Smith Breeden and Western Asset portable alpha strategies utilized equity index futures to obtain exposure to the domestic equity market, while investing remaining cash in an enhanced cash portfolio consisting mainly of fixed income securities. Both the Smith Breeden and Western Asset mandates were discontinued by IPERS during the fiscal year due to poor performance and the inability of the managers to meet margin calls on the equity index futures utilized in their accounts. Upon discontinuation, both managers sold their equity index futures, and the managers' mandates were modified to be that of a liquidation manager, with the objective of overseeing the orderly sale of the remaining fixed income securities as market conditions improved. Both accounts were reclassified as liquidation accounts because the objective had changed and had no remaining exposure to domestic equity.

The Westridge Capital Management mandate was discontinued in February 2009 when it was disclosed that alleged fraud had occurred at an affiliated firm utilized in the strategy. (See Note 3 on page 40.) IPERS terminated its contract with Westridge and ordered the sale of the equity index futures that were utilized in the strategy. The Westridge account was reclassified as a liquidation account because it no longer had exposure to domestic equity.

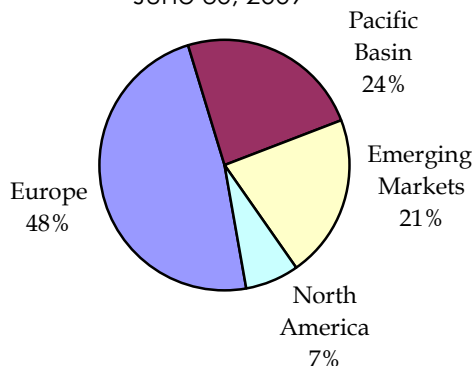
The investment performance for each of the three managers moved to the liquidation account is reflected in the domestic equity portfolio up to the end of the month in which it was reclassified. Performance after date of reclassification is not included in the returns for the domestic equity portfolio, but is included in the calculation of investment returns for the total fund.

International Equity

At June 30, 2009, the international equity portfolio had a net fair value of \$2.404 billion, representing 13.36 percent of the total IPERS portfolio. IPERS' international equity portfolio is composed primarily of common stocks or equity commingled funds, foreign exchange contracts, and cash, and is widely diversified across many regions, countries, industries, and securities.

International Equity Portfolio

June 30, 2009



The international equity portfolio has three primary components:

ACTIVE EQUITY. An actively managed diversified portfolio consisting primarily of equity securities issued by foreign companies in developed countries. For purposes of investment management, a regional approach is used to invest in these international markets. The active equity portfolio's performance objective is to exceed the return of the MSCI All Country World ex U.S. index.

PASSIVE EQUITY. A passively managed diversified portfolio consisting of commingled index fund investments in Canadian and developed European countries' corporate equity securities. The objective of the passive equity portfolios is to track the performance of the MSCI Canada and Europe indices, respectively.

GLOBAL EMERGING MARKETS. An actively managed diversified portfolio consisting primarily of equity securities issued by companies in countries which are small and immature by developed market standards. Over time these markets are expected to experience growth rates well in excess of developed markets. Consequently, investments in emerging markets provide opportunities for higher portfolio returns. Furthermore, low correlation between returns of emerging markets and those of developed markets can serve to reduce total risk in the international equity portfolio.

International markets trailed the U.S. stock markets during the year ended June 30, 2009. The MSCI All Country World ex U.S. index returned -30.54 percent for fiscal year 2009, while the Wilshire 5000 index posted -26.40 percent for the same period.

IPERS' international equity portfolio returned -29.64 percent during fiscal year 2009, compared to -30.54 percent for the benchmark. For the five-year period ended June 30, 2009, this portfolio slightly underperformed its benchmark, earning an annualized return of 4.17 percent versus 4.95 percent for the benchmark.

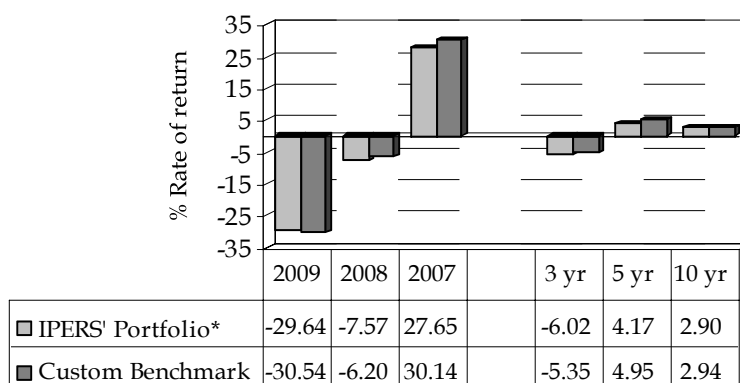
The Pacific basin was the top-performing region in international equities, with a one-year return of -24.52 percent. Europe was again the worst-performing region with a return of a -34.53 percent.

The Pacific basin was the top-performing region in international equities.

A slight overweight to Europe was the source of nearly all the underperformance in the active international equity portfolio for fiscal year 2009. For the year ended June 30, 2009, the region returned -34.53 percent while the asset class return benchmark of the MSCI All Country World ex U.S. index posted a one-year return of -30.54 percent. The global recession continued to have a negative impact on equities. Deleveraging either by choice or by lack of credit worldwide prolonged the decline in equities during FY2009. Active decisions by IPERS' quantitative managers in both the Europe and Pacific basin regions were not rewarded during the year as the strategies' value approach suffered.

International Equity Performance

For the periods ended June 30



*Net of fees.

Public Equity Portfolio – Top Ten Holdings

The top ten holdings within the public equity portfolio at June 30, 2009, are illustrated below. The listing does not include the fair value of units held in commingled fund investments. A complete listing of the holdings, including commingled fund holdings, is available upon request.

Ten Largest Holdings* at June 30, 2009	Fair Value	% of Total IPERS Public Equity Portfolio
Goldman Sachs	\$21,509,284	0.35
Apple, Incorporated	20,563,331	0.33
Roche Holding AG	17,512,156	0.28
Teva Pharmaceutical Industries	17,136,966	0.28
SAP AG	16,767,390	0.27
Exxon Mobile Corporation	16,682,204	0.27
Nestle S.A.	16,429,158	0.26
AT&T, Incorporated	16,422,047	0.26
Qualcomm, Incorporated	16,072,080	0.26
Toyota Motor Corporation	15,681,290	0.25

*Excludes all holdings in commingled fund accounts.

Fixed Income

IPERS has a significant allocation to fixed income securities, with a target asset allocation of 34 percent to core plus fixed income securities and 5 percent to high-yield securities. At fiscal year end, IPERS' core plus portfolio was 35.70 percent of total Fund assets and the high-yield portfolio was 5.16 percent of total Fund assets. The total return for the consolidated fixed income portfolio (core plus and high-yield portfolios combined) for the year ended June 30, 2009, was 2.41 percent. The consolidated fixed income portfolio fair value was \$7.354 billion and the average bond rating for the portfolio was A+.

IPERS' fixed income portfolio is managed through two strategies, as described below:

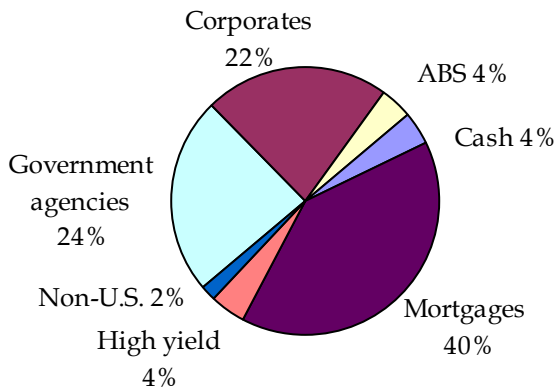
CORE PLUS. The objective of the core plus fixed income portfolio is to generate a return above the return of the overall fixed income market. Approximately 34 percent of the core plus portfolio is dedicated to a passively managed "core" investment in an index fund designed to earn the return of the Barclays U.S. Aggregate Index (Aggregate Index), an index consisting of high-quality U.S. investment-grade fixed income securities. The remainder of the core plus portfolio is actively managed with the objective of exceeding the return of the Barclays U.S. Universal Index (Universal Index), net of fees, over a full market cycle. The Universal Index is a broader index, consisting of the core Aggregate Index, plus other fixed income sectors available to U.S. investors, such as commercial mortgage-backed securities (CMBS), high-yield bonds, dollar-denominated emerging market debt, and Eurodollar bonds.

The core plus portfolio is a diversified portfolio of fixed income securities, utilizing cash and cash equivalents, forward foreign exchange contracts, swaps, currency options, financial futures, government and government agency bonds, Eurobonds, nondollar bonds, nonconvertible preferred stock, options on fixed income instruments, mortgage-backed bonds, corporate bonds, commercial mortgage-backed securities (CMBS), private placement corporate bonds, and asset-backed securities (ABS).

The actively managed portion of the core plus portfolio is expected to have interest rate sensitivity similar to the Universal Index, and be diversified by industry, sector, and security issuers.

Core Plus Fixed Income Portfolio

June 30, 2009



The economic environment remained depressed and troubled during most of FY2009, having a negative impact on most markets, including the fixed income market. The Federal Reserve reduced the federal funds rate from 2.00 percent to a target range of 0.00 to 0.25 percent as they tried to head off deflation and spur on the economy. The credit crunch, which evolved from a subprime mortgage issue into a significant liquidity and solvency crisis, continued to shake the markets. It also led to the failure of some of the world's largest financial companies and caused the government to intervene at unprecedented levels. Consumer spending and consumption continued to weaken as the housing market was depressed and unemployment was increasing.

The result was a focus on higher-quality investments as investors looked for the safety of U.S. Treasury securities, causing the credit sectors to underperform at levels that have never been seen before. The agency mortgage sector, as measured by the Barclays Capital Mortgage Index, was the best-performing sector for fiscal year 2009 with a return of 9.37 percent. Government-sponsored programs to purchase agency mortgages significantly benefited the sector. U.S. Treasury securities also performed well, generating a return of 6.47 percent. The credit sectors underperformed throughout much of the year, but outperformed significantly in the second quarter of 2009 as the economy began to stabilize, confidence began to increase, and investors were willing to accept more risk. The corporate sector, as measured by the Barclays Capital U.S. Corporate Index, generated a return of 10.45 percent in the second quarter alone. For the full fiscal year, the sector returned 3.84 percent.

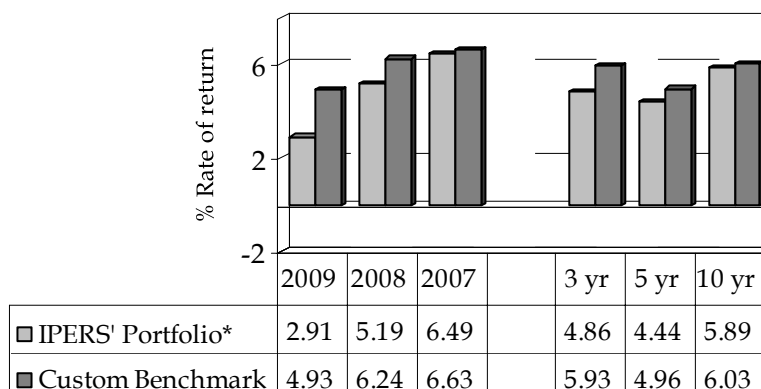
The agency mortgage sector was the best-performing sector for FY2009 with a return of 9.37 percent.

IPERS' core plus fixed income portfolio return of 2.91 percent underperformed the Barclays Capital Universal Index return of 4.93 percent for the fiscal year ended June 30, 2009. This was due mainly to IPERS' slight overweight positions to CMBS and nonagency mortgage securities versus the benchmark.

The following graph provides a historical review of performance for the core plus fixed income portfolio:

Core Plus Fixed Income Performance

For the periods ended June 30

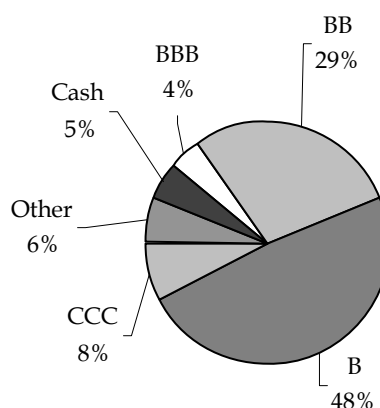


*Net of fees.

HIGH YIELD. IPERS' high-yield fixed income portfolio is designed as an actively managed, risk-controlled strategy that seeks to safely capture higher coupon income by investing in the debt of higher-quality companies rated below investment grade. Bottom-up fundamental research is emphasized in selecting the high-yielding debt of U.S. and Canadian companies, with the objective of outperforming the Citigroup High-Yield Cash-Pay Capped Index, net of fees, over a full market cycle.

High-Yield Fixed Income Portfolio

June 30, 2009



IPERS' high-yield portfolio outperformed the high-yield market due to its emphasis on quality.

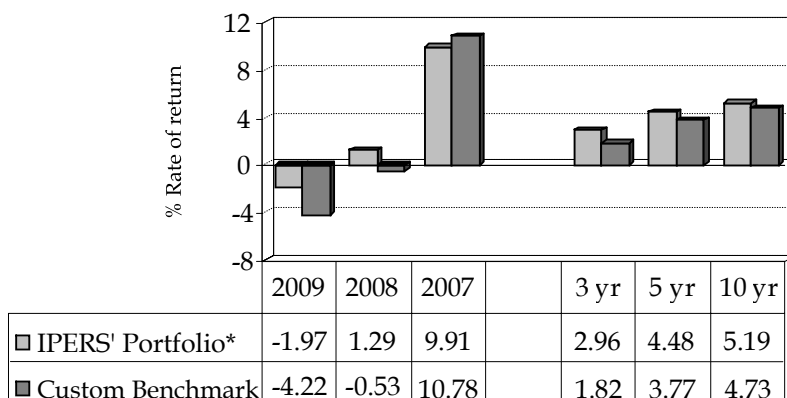
The high-yield sector of the bond market underperformed the other sectors of the fixed income market in fiscal year 2009, as investors sought out the safety of U.S. Treasuries and higher-rated securities. IPERS' high-yield fixed income portfolio outperformed the high-yield market return due to its emphasis on quality, generating a return of -1.97 percent versus the Citigroup High Yield Cash Pay Capped Index return of -4.22 percent for the fiscal year ended June 30, 2009.

INVESTMENTS

The graph below provides a historical review of performance for the high-yield fixed income portfolio:

High-Yield Fixed Income Performance

For the periods ended June 30



*Net of fees.

Fixed Income Portfolio—Top Ten Holdings

The top ten holdings within the consolidated fixed income portfolio (core plus and high-yield combined) at June 30, 2009, are illustrated below. The listing does not include the fair value of units held in commingled fund investments. A complete listing of the holdings, including commingled fund holdings, is available upon request.

Ten Largest Holdings* at June 30, 2009	Fair Value	% of Total IPERS Fixed Income Portfolio
FNMA TBA 30YR 5.00% 01JUL2039	\$172,753,483	2.35
FNMA Discount Note 30OCT2009	129,922,000	1.77
FHLMC Group #G04222 5.50% 01APR2038	120,744,209	1.64
FHLMC Corp Debt FRN 04MAY2011	45,158,559	0.61
US Treasury Note 5.125% 15MAY2016	33,188,938	0.45
GNMA TBA 30 YR 6.00% 01JUL2039	31,975,969	0.43
FHLMC TBA GOLD SFM 5.00% 01JUL2039	29,774,584	0.40
FNMA TBA 15 YR SFM 5.50% 01JUL2024	28,761,413	0.39
FNMA Pool #725423 5.50% 01JUN2033	27,603,996	0.38
US Treasury Bond 8.125% 15AUG2019	27,541,806	0.37

*Excludes all holdings in commingled fund accounts.

Private Equity/Debt

At June 30, 2009, IPERS' private equity/debt portfolio had a fair value of \$2.080 billion, representing 11.56 percent of the total IPERS portfolio. From the inception of the private equity/debt portfolio in 1985 through June 30, 2009, the System has committed \$6.131 billion to 217 partnerships. Of that total, \$1.675 billion remains to be called for investment. During the fiscal year, IPERS committed \$456 million to 13 new partnerships. The long-term objective of the private equity/debt portfolio is to achieve a rate of return that exceeds the returns available in the public equity markets.

Private equity/debt has the potential to produce higher returns, but it also carries greater risk. IPERS manages the risk by using different management styles and diversifying by industry, location, and time commitment.

The System seeks to minimize the risk associated with the asset class by investing in a variety of top-tier partnerships with different investment styles and objectives. The portfolio is also diversified by industry focus, geographic location, and, most importantly, time, which means that capital is committed to partnerships over the full course of the business cycle and not concentrated in any one year.

The long-term performance objective for the private equity/debt portfolio is to exceed the return of the Dow Jones Wilshire 5000 Index, calculated on an internal rate of return (IRR)¹ basis, by 3 percentage points on an annualized basis. The private equity/debt portfolio returned -25.60 percent in fiscal year 2009 versus -23.25 percent for its benchmark. However, private equity investments typically span ten years or more, so a longer evaluation time horizon is appropriate. The private equity/debt portfolio has returned 7.02 percent versus its benchmark return of 1.47 percent for the ten-year period ended June 30, 2009. Since inception in 1985, the IPERS private equity/debt portfolio has returned 13.85 percent versus its benchmark return of 13.89 percent.

One drawback to comparing a portfolio return to a benchmark return is that it does not provide any information on how the portfolio's performance compares to the universe of private equity investment opportunities that were available at the time IPERS made its investments. The *Venture Economics*² All Private Equity funds performance database includes data from 1,729 partnerships and makes it possible to compare a portfolio to a universe of private equity partnerships that raised capital over the same time period. Another performance analysis issue is that IRRs can be sensitive to the estimated value of unrealized investments. Therefore, IRRs for the portfolio should be reviewed in conjunction with "distributions to paid-in capital" (DPI) ratios, which ignore valuations and measure the ratio of cumulative distributions to cumulative paid-in capital for the time period, that is, how much of the investment performance has been realized.

The table compares the IRR and DPI of IPERS' private equity/debt portfolio to those calculated for all private equity partnerships in the *Venture Economics* database for vintage years 1985 through 2008. (No *Venture Economics* data was available for vintage year 2009.)

¹The internal rate of return (IRR) is utilized to evaluate private equity investments because they are generally illiquid and cash inflows and outflows can be controlled by the general partner of the private equity partnership. Time-weighted returns are inappropriate under such conditions.

²All *Venture Economics* information is as of October 2009, with data current for reporting periods ended March 31, 2009. Data is continuously updated and is therefore subject to change. As explained in the Summary of Significant Accounting Policies in the Financial section, IPERS utilizes a one-quarter valuation lag for its private equity/debt investments. Therefore, the March 31 *Venture Economics* data is the appropriate data for performance comparisons made here and on the following page.

INVESTMENTS

	IRR	DPI
IPERS—private equity/debt portfolio	13.85%	1.06
<i>Venture Economics</i> —all private equity funds	11.50%	0.88

The performance measures shown above do not fully reflect the evolution that has occurred in the implementation of IPERS' private equity/debt strategy. For example, the IPERS Investment Board determined that as of 1993 the selection of private equity partnerships should be delegated to a professional management firm, rather than having IPERS' staff and the Board attempt to evaluate and select these complex investments. The "since inception" results shown above include the impact of decisions made prior to delegating the selection process to an investment manager.

The decision to give full investment discretion to a management firm for the private equity/debt portfolio has proven successful to date. IPERS' private equity investment manager has produced a net IRR of 16.20 percent since the firm was given full discretion to select partnerships on IPERS' behalf on January 1, 1993. This return compares favorably to the 11.67 percent IRR of the custom benchmark IPERS has established for the manager, the 6.95 percent IRR of IPERS' asset class benchmark for private equity (Wilshire 5000 + 300 bps) over the time period, and the pooled average IRR of 9.00 percent reported by *Venture Economics* for all private equity funds in its database for vintage years 1993 through 2008.

The decision to give full investment discretion to a management firm for the private equity/debt portfolio has proven successful.

The DPI of 0.84 for the manager's discretionary portfolio also compares favorably to *Venture Economics'* pooled average DPI of 0.77 for all private equity funds in its database for vintage years 1993 through 2008.

Real Estate

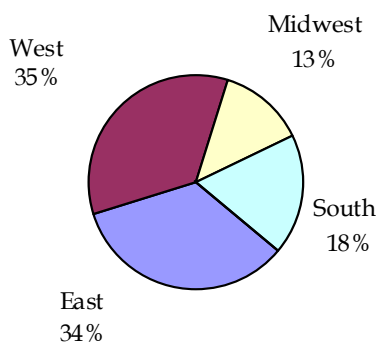
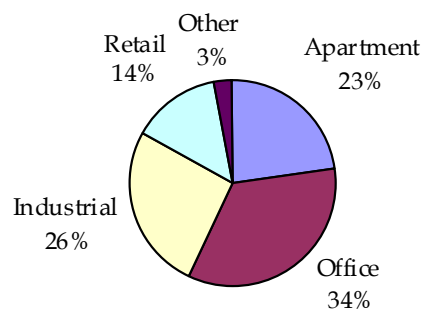
At June 30, 2009, \$1.501 billion, or 8.34 percent, of IPERS' total portfolio at fair value was invested in various real estate properties and publicly traded real estate investment trusts (REITs). In order to mitigate risk, the real estate portfolio is diversified by both geographic location and property type, as shown in the following pie charts.

The total net return for the real estate portfolio for the fiscal year was -25.28 percent, compared to -21.94 percent for the portfolio's benchmark (85 percent NCREIF NPI/15 percent Dow Jones Wilshire REIT + 0.25 percent). As with the private equity/debt portfolio, the real estate program invests in assets with long holding periods and should be evaluated over a longer time horizon. For the ten years ending June 30, 2009, the real estate portfolio returned 7.92 percent versus the portfolio's benchmark of 7.93 percent.

Both the private and public portions of the real estate program provided positive income but experienced significant declines in market value during fiscal year 2009. The market value of the private portion of the real estate program was written down -27.76 percent, while the public portion was written down -46.86 percent. Increased vacancies, some tenant bankruptcies, tight credit markets, and the challenging employment environment were all contributors to the negative results in real estate in fiscal year 2009.

Real Estate Portfolio

June 30, 2009

By Property Location**By Property Type****Investments in Iowa**

Iowa Code section 97B.7A authorizes IPERS to invest the moneys of the Trust Fund in accordance with the Investment Policy and Goal Statement adopted by the Investment Board and subject to the Prudent Person rule. Section 97B.7A also directs that, where consistent with the aforementioned standards, IPERS will invest “. . . in a manner that will enhance the economy of the state, and in particular, will result in increased employment of the residents of the state.” At June 30, 2009, the System held investments of \$411 million in companies of Iowa interest (as shown in the following table).

Asset Class	Companies of Iowa Interest
Stocks	\$282,350,475
Bonds	125,803,010
Private equity/debt	3,045,800
Total	\$411,199,285

INVESTMENTS

Schedule of Brokerage Commissions Paid

Year ended June 30, 2009

Brokerage Firm	Commissions		
	Amount Paid*	Average Per Share	% of Total Paid for Period
UBS Securities	\$ 302,654	\$0.001	10.41
Merrill Lynch & Company Inc	281,823	0.012	9.70
Goldman Sachs & Company	256,733	0.006	8.83
JP Morgan Securities Inc	239,478	0.001	8.24
Morgan Stanley & Co	204,347	0.005	7.03
Citigroup Global Markets Inc	194,848	0.009	6.70
Credit Suisse First Boston	185,904	0.002	6.40
Deutsche Bank	114,234	0.023	3.93
Barclays Capital	75,449	0.021	2.60
Sanford C Bernstein & Company LLC	61,039	0.010	2.10
SG Securities Limited	48,403	0.002	1.67
BNP Paribas	32,706	0.008	1.13
Macquarie Securities	32,315	0.004	1.11
Knight Securities	31,560	0.014	1.09
ING Financial Markets LLC	30,767	0.040	1.06
Banc of America Securities LLC	28,841	0.025	0.99
Liquidnet Inc	28,411	0.019	0.98
Nomura Securities	27,393	0.002	0.94
Calyon Securities	26,174	0.001	0.90
Pershing & Company	25,883	0.025	0.89
Jefferies & Company Inc	25,296	0.040	0.87
Stifel Nicolaus & Company Inc	24,446	0.044	0.84
RBC Capital Markets Corporation	22,528	0.040	0.78
Spectrum Asset Management Inc	21,778	0.025	0.75
Lehman Brothers Inc	19,469	0.024	0.67
All others (includes 130 brokerage firms)	564,208	0.010	19.39
Total	\$2,906,687	\$0.007	100.00 %

*In U.S. dollars.

Investment Policy and Goal Statement

The following excerpt from the Iowa Public Employees' Retirement System's Investment Policy and Goal Statement, as adopted by the IPERS Investment Board and last revised on June 25, 2009, includes all Policy text, but excludes the addenda referenced in the Policy. Readers are encouraged to view IPERS' current investment policies on-line at www.ipers.org.

I. INTRODUCTION: IPERS' PURPOSE AND PRINCIPLES

The Iowa Public Employees' Retirement System (IPERS or System) was established in 1953, and is governed by Iowa Code chapter 97B. Since its creation, IPERS' activities have been directed toward fulfilling the foundational purpose of the System, as described in §97B.2:

...to promote economy and efficiency in the public service by providing an orderly means for employees, without hardship or prejudice, to have a retirement system which will provide for the payment of annuities, enabling the employees to care for themselves in retirement, and which will improve public employment within the state, reduce excessive personnel turnover, and offer suitable attraction to high-grade men and women to enter public service in the state.

IPERS is administered through a chief executive officer, chief investment officer, chief benefits officer, and other full-time staff. The investment activities are governed by an Investment Board, and the underlying principle which governs these activities is the "prudent person" rule. In the formulation of this investment policy and goal statement, a primary consideration of the Investment Board and staff has been their awareness of the stated purpose and investment principle. IPERS' investment activities are designed and executed in a manner that will fulfill these goals. The investment policy and the individual strategies will be periodically reviewed to ensure that they conform to §§97B.2 and 97B.7A.

The primary duties of the Investment Board (Board) are to establish policy, review its implementation, and approve the retention of service providers in matters relating to the investment of IPERS' assets and the actuarial valuation of the System's assets and liabilities. The Investment Board is the trustee of the IPERS Trust Fund (Fund). The chief investment officer is responsible for the administration of the investment program pursuant to the policies of the Board. Additionally, the Board supports the retention and development of sufficient investment staff and the provision of other resources as necessary to ensure the thorough oversight and administration of each investment program undertaken by the System.

II. INVESTMENT GOAL STATEMENT

In accordance with the above described purpose and statutory citations, the following investment goals are adopted:

- A. The investment activities are designed and executed in a manner that serves the best interests of the members and beneficiaries of the System.
- B. The investment activities are designed to provide a return on the portfolio that, when coupled with the periodic contributions of the membership and employers, will meet or exceed the benefit funding requirements of the plan over time. Of primary consideration is the maintenance of funding which is adequate to provide for the payment of the plan's actuarially determined liabilities over time.

- C. The long-term performance expectations for the total Fund after the deduction of management fees are as follows:
1. Performance which exceeds the rate of inflation, as determined by the Consumer Price Index (CPI), by at least 300 basis points (3%).
 2. Performance which exceeds the 750 basis point (7.5 percent) actuarial assumed investment return.
 3. Performance which exceeds the Policy Benchmark, as defined in Section III(A) of this Policy, which represents the return of a passively managed portfolio comprised of the target asset allocations to, and appropriate indexes for, each asset class.
 4. Performance which exceeds the median risk-adjusted return of a universe of large public funds.

III. INVESTMENT POLICY STATEMENT

IPERS' investment policies are structured to maximize the probability that the investment goals will be fulfilled. All investment policy decisions shall include liquidity and risk considerations that are prudent and reasonable under the circumstances that exist over time. IPERS' investment policies will evolve as the internal conditions of the Fund and the capital markets environments change.

Achievement of IPERS' investment goals ultimately depends upon earning a sufficient return on the System's investments while taking a prudent amount of risk to attain the return. Investment return is comprised of two components known as "beta" and "alpha". Beta return is the return generated from exposure to a specific market or asset class. Alpha return is the excess return resulting from subtracting the beta return from the total investment return, and is conditional upon skillful active investment decision making. IPERS believes that risk-adjusted investment returns can be improved by separating beta and alpha decisions in actively managed (that is, nonpassive or nonindex) portfolios.

Beta decisions should focus on maximizing expected market returns at prudent levels of risk (with risk defined as the standard deviation of the market returns). The Board will adopt a Policy Benchmark representing what it believes is the most efficient portfolio of market exposures (the beta portfolio) that will meet the Board's tolerance for market risk. Staff, with the assistance of the System's consultants, will implement the Board's beta decisions in the most cost efficient manner possible and will be responsible for maintaining the beta exposure levels within the acceptable ranges established by the Board.

Alpha decisions are expected to provide additional return from actively managed strategies for the System's investment portfolio without significantly increasing the overall risk of the portfolio. The Board will adopt an alpha risk budget that establishes its tolerance for return volatility attributable to alpha decisions. While the alpha risk budget will be set by asset class, alpha sources will not be constrained to a specific asset class. Alpha returns from investing in securities of one asset class may be transported to another asset class through the use of portable alpha strategies.

A. The Beta Portfolio

1. Policy Benchmark

The System adopts a Policy Benchmark that represents a mix of beta exposures that is expected over the long term to maximize the risk-adjusted beta return to the System

INVESTMENTS

consistent with the Board's tolerance for market risk. The Policy Benchmark is predicated on a number of factors, including:

- a. The actuarially projected liability stream of benefits and its cost to both covered employees and employers.
- b. The relationship between the current and projected assets of the plan and the plan's projected liabilities.
- c. Expectations regarding long-term capital market returns and risks.
- d. Historical returns and risks and correlations of asset classes that make up the capital markets.
- e. The perception of future economic conditions, including inflation and interest rate assumptions, and their impacts on the System's assets and liabilities.

The table below represents the Board's adopted Policy Benchmark. The Policy Benchmark Weights establish the Board's target exposure to each asset class, while the Asset Class Ranges establish the ranges within which Policy Benchmark Weights may fluctuate. The Policy Benchmark Return is the sum of the products of multiplying each Policy Benchmark Weight by the respective Policy Benchmark Index return for the period.

Asset Class	Asset Class Ranges	Policy Benchmark Weights	Policy Benchmark Index
Equities		43%	
Domestic Equities	23%-33%	28%	Dow Jones Wilshire 5000
International Equities	10%-20%	15%	MSCI ACWI ex U.S.
Fixed Income		39%	
Core Plus Fixed Income	30%-38%	34%	Lehman U.S. Universal
High-Yield	3%-7%	5%	Citigroup HY Cash-Pay
Alternatives		18%	
Private Equity	7%-13%	10%	Dow Jones Wilshire 5000 + 3%
Equity Real Estate	6%-10%	8%	Custom Index ¹
Cash	0%-1%	0%	Merrill Lynch 91-day T-Bill

¹The equity real estate custom index for purposes of the Policy Benchmark Index is weighted 85 percent NCREIF Property Index and 15 percent Dow Jones Wilshire REIT Index to reflect the real estate program's strategic mix.

2. Policy Benchmark Components

Apart from any alpha expectations described in Section IIIB, IPERS seeks to earn market returns from each asset class in the Policy Benchmark. This market exposure may be achieved by purchasing securities that comprise the respective asset classes or by purchasing derivatives designed to provide the return of a particular market. Each public market asset class has a Policy Benchmark Index that is believed to best represent the broadest market opportunity set for the respective asset class. The return on each Policy Benchmark Index is the market return (beta return) for each asset class.

Domestic Equities

IPERS invests in the domestic equity market to earn an equity risk premium to enhance the long-term returns of the Fund. This asset class includes the broad market of publicly traded U.S. equities with varying characteristics related to market capitalization and investment style. The Policy Benchmark Index for Domestic Equities is the Dow Jones Wilshire 5000 Index.

International Equities

IPERS invests in international equities to earn an equity risk premium and to diversify the equity exposure within the Fund. The International Equities asset class includes both developed and emerging equity markets. The Policy Benchmark Index for International Equities is the Morgan Stanley Capital International (MSCI) All-Country World Index ex-U.S. (ACWI ex-U.S.) calculated gross of tax credits from dividend reinvestment.

Core Plus Fixed Income

IPERS invests in fixed income assets to provide stable income for the payment of benefit obligations and to diversify the market risk of the investment portfolio. The Core Plus fixed income market represents a global opportunity set of fixed income instruments available to U.S. institutional investors. The Policy Benchmark Index for Core Plus fixed income is the Lehman U.S. Universal Index.

High-Yield Bonds

IPERS has made a strategic allocation to high-yield corporate bonds to enhance the long-term returns of the investment portfolio, to provide current income, and to provide diversification benefits. The Policy Benchmark Index for High-Yield Bonds is the Citigroup High-Yield Cash-Pay Capped Index.

Equity Real Estate

IPERS invests in equity real estate to provide diversification in the investment portfolio and for income generation. The Policy Benchmark Index for Equity Real Estate is a weighted custom index of 85 percent the National Council of Real Estate Investment Fiduciaries' Property Index (NPI) and 15 percent the Dow Jones Wilshire Real Estate Investment Trust Index (Wilshire REIT). (See Appendix A for IPERS' Real Estate Investment Policy.)

Private Equity/Debt

IPERS invests in private equity/debt to enhance the investment portfolio return through long-term capital appreciation. Private equity investments are highly illiquid, and IPERS seeks to be compensated for such illiquidity by earning returns substantially greater than those available from publicly traded equity markets. The Policy Benchmark Index for Private Equity/Debt is the Dow Jones Wilshire 5000 Index plus 300 basis points (3 percent). (See Appendix B for IPERS' Private Equity/Debt Investment Policy.)

Cash

Cash, for purpose of applying the Policy Benchmark Weights and Asset Class Ranges, is limited to funds available prior to distribution to investment managers and the amount reserved to pay near-term benefits and administrative costs. The Policy Benchmark Index for Cash is the Merrill Lynch 91-Day Treasury Bill Index.

3. Policy Benchmark Rebalancing

Because of the fluctuation of market values, and the effect of cash flows in and out of the System, the actual weights of each asset class can differ from the target weights established in the Policy Benchmark. In recognition of this, the Board has also adopted Asset Class Ranges for each asset class, and positioning within a specified Asset Class Range is acceptable and constitutes compliance with the Policy Benchmark. It is anticipated that the Board will make periodic revisions to the Policy Benchmark, and it is recognized that in some cases it may be prudent to allow an extended period of time to fully implement revisions to the Policy Benchmark. In the absence of suitable opportunities within a specific market, the funds shall be directed to the other components within the ranges specified. The Board and staff will regularly monitor the actual asset allocation versus the Policy Benchmark Weights and evaluate any variations. In addition, it is acknowledged that market conditions or circumstances beyond IPERS' control may lead to asset class weightings being temporarily out of their target ranges, especially as those ranges relate to illiquid asset classes.

B. The Alpha Portfolio

Alpha is the difference resulting from subtracting a beta return from a portfolio return. IPERS believes that positive alpha can be consistently earned by selecting skillful managers and applying that skill to a broad set of investment opportunities. By employing a combination of strategies that have low correlation to one another, and also employing a combination of skillful managers whose performance exhibits low correlation to one another, IPERS believes that consistent positive alpha returns (net of all fees) can be achieved at low levels of risk.

Various strategies may be employed in the creation of a diversified alpha portfolio. Factors that will determine the alpha portfolio composition will include market structure and dynamics, the breadth and depth of available active managers, and contribution to the alpha risk budget. Traditional long-only management strategies may continue to be utilized in order to capture alpha, while portable alpha strategies, which allow alpha earned in other asset classes to be transported to a particular asset class through the use of derivatives, may also be utilized.

In reviewing the effectiveness of alpha portfolio decisions, it is understood that a sufficient time frame is necessary to measure results through market cycles. A five-year period will generally be used to judge the results of alpha portfolio decisions.

The Board acknowledges that portable alpha strategies introduce a component of leverage into the portfolio, since market exposure is obtained through the use of derivatives while cash not needed to maintain the derivatives position is invested in alpha-producing assets. However, it is believed that a properly constructed alpha portfolio with a low correlation to the underlying beta portfolio is, from an economic perspective, equivalent to utilizing traditional long-only strategies in terms of risk and return.

Properly executed portable alpha strategies, which seek to apply manager skill across multiple alpha sources with low correlation to one another, can also have unique implementation risks that must be carefully monitored and managed. Some strategies can introduce high levels of financial leverage, valuation risks due to a lack of transparency, custody risks due to assets being held by prime brokers, and operational risks due to the use of complex, highly quantitative strategies. Staff will seek to mitigate these risks by employing a careful and thorough due diligence process in the evaluation and selection of reputable, experienced portable alpha managers. However, it is acknowledged that it may not be possible to eliminate some implementation risks associated with some portable alpha strategies.

Most hedge fund strategies will have many, if not all, of the implementation risks described above. Staff does not currently have the resources to perform adequate due diligence on the many hedge funds available in the market. Therefore, the Board has directed staff to utilize only fund of hedge fund managers to execute any portable alpha strategies that invest in hedge funds.

The alpha portfolio within an asset class will be structured to meet an alpha risk budget established by the Board to reflect the Board's active risk tolerance. Alpha risk is defined as the standard deviation of the alpha returns, and the Alpha Risk Target represents the Board's tolerance for volatility attributable to alpha-seeking strategies for an asset class. The Board and staff will annually evaluate the alpha portfolios against their respective Alpha Risk Targets and determine what actions should be taken to address any deviations.

It shall be the staff's responsibility to recommend to the Board an allocation of the alpha risk budget to various alpha sources based upon an optimization model, and to maintain an alpha portfolio's alpha risk as close to the Alpha Risk Target as possible. However, because the volatility of short-term alpha returns, positioning within the specified Alpha Risk Range is acceptable and constitutes compliance with the Policy. It is anticipated that the Board will periodically revise the alpha risk budgets, and it is acknowledged that it may be prudent to allow an extended period of time to fully implement revisions to the alpha risk budget.

The Board has established the following alpha risk budget:

Asset Class	Alpha Risk Range	Alpha Risk Target
Equities		
Domestic Equities	0.70%–1.30%	1.00%
International Equities	1.50%–2.50%	2.00%
Fixed Income		
Core Plus Fixed Income	0.40%–0.60%	0.50%
High-Yield	2.40%–4.10%	3.25%

Alpha risk budgets have not been established for the Equity Real Estate and Private Equity/Debt asset classes because of the difficulty of separating beta and alpha in those asset classes. Additionally, the lack of investable benchmarks for these two asset classes makes it impossible to determine the beta return for these asset classes. Thus, for Policy purposes, the alpha and beta risks for these two asset classes are assumed to be captured in the Policy Benchmark risk budgeting process.

C. Investment Management

To achieve optimum performance results in concert with diversification of its assets, IPERS will select and utilize an external investment manager to manage each of its portfolio accounts. The System will also utilize the services of investment management consultants for the purpose of performance review, asset allocation studies, risk budgeting, manager selection screening, and topical studies.

1. Manager/Consultant Utilization and Selection

The selection of the managers and consultants is accomplished in accordance with Iowa Executive Order Number 25, dated June 4, 2002, the applicable provisions of Iowa Code sections 8.47 and 8.52, and the administrative rules adopted thereunder, except as otherwise provided in duly issued waivers by the ruling authority. The System will procure manager and consultant services with adequate attention to the principles of competition and reasonableness of costs, and will wherever feasible compensate the external managers through the use of performance-based fees.

Each investment manager and consultant shall function under a formal contract that delineates their responsibilities and the appropriate risk management and performance expectations.

2. Manager/Consultant Discretion

The investment managers shall have full discretion to direct and manage the investment and reinvestment of assets allocated to their accounts in accordance with this document, applicable federal and state statutes and regulations, and the executed contracts. Further, the investment managers shall have full discretion to establish and execute trades through accounts with one or more securities broker/dealers as the managers may select. The investment managers will attempt to obtain the "best

available price and most favorable execution" with respect to all of the portfolio transactions. In accordance with this principle, broker/dealers with an office in Iowa will be given an opportunity to compete for various transactions.

The Board and staff will consider the comments and recommendations of the managers and consultants in conjunction with other available information in making informed, prudent decisions.

3. Manager Evaluation

The investment managers under contract with the System will meet periodically with the Investment Board and/or staff for the purpose of reviewing the investment activities of their assigned portfolio, its performance, the investment strategy that governs its management, and the marketplace in which it exists. Such meetings may be conducted at the offices of the investment firms. A detailed discussion of IPERS' manager evaluation policies and procedures is provided in the IPERS Manager Monitoring and Retention Policy. (See Appendix C for IPERS' Investment Manager and Retention Policy.)

D. Cash Management

Staff will ensure that adequate cash is available for the payment of benefit obligations and the funding of investments, and any cash held pending such uses shall be temporarily invested in the custodian's Short Term Investment Fund (STIF) or other suitable short-term investment vehicle authorized by the Board. Cash held within the accounts of investment management firms will be managed in accordance with the guidelines established in the contractual agreement with each firm.

E. Currency Risk Management

Investment in nondollar-denominated assets introduces the risk of loss due to currency fluctuations. It shall be the responsibility of each investment manager to manage any currency risk within its portfolio according to the terms of the contract between the manager and the System. The objective of currency management is not the elimination of all currency risk, but rather the prudent management of risks associated with investing in currencies or in assets that are not denominated in U.S. dollars.

F. Custody

The Treasurer of the State of Iowa is the custodian of the Fund. The Treasurer will hold the System's assets in a custody/recordkeeping account in a master custody bank located in a national money center and in the international subcustodian banks under contract to the custodian bank. The Treasurer shall consult with the Board prior to selecting the master custody bank. A formal written agreement shall be established between the Treasurer of State and any third-party custodian. The custodian bank agreement shall be reviewed periodically by the staff and Investment Board.

G. Securities Lending

The primary objective of the securities lending program shall be to safely generate income from lending the System's securities to qualified borrowers. The program will only utilize lending agents that agree to acceptable make-whole or indemnification provisions in the event

a loan of securities is terminated and the borrower has failed to return the loaned securities within the standard settlement period for the loaned securities.

Cash collateral received against loans of securities shall be prudently invested in a low-risk investment strategy that invests only in: a) commingled funds or money market funds managed in accordance with the regulations and criteria specified in Rule 2(a)(7) promulgated under the Investment Company Act of 1940, or b) separate accounts that have investment guidelines identical to those required of a 2(a)(7) fund, or c) overnight repurchase agreements collateralized with obligations issued by the United States Treasury or obligations issued by agencies or government-sponsored entities of the United States government.

The key investment objective for investing the cash collateral shall be to: a) safeguard principal; b) maintain adequate liquidity; and c) consistent with the foregoing objectives, optimize the spread between the collateral earnings and the rebate paid to the borrower of securities.

The Investment Board may select its own securities lending agent or authorize the Treasurer of the State of Iowa to manage the securities lending program in accordance with the risk guidelines established herein. Staff shall execute a formal written agreement between any lending agent (or the Treasurer, as the case may be) and IPERS stipulating the risk parameters and performance benchmarks of the program, which shall be in accordance with these guidelines. The securities lending program will be annually reviewed by the Board, and the ongoing operation of such program shall be subject to periodic reauthorization by the Board.

H. Proxy Voting

IPERS acknowledges that proxies are a significant and valuable tool in corporate governance and therefore have economic value. The System commits to managing its proxy voting rights with the same care, skill, diligence, and prudence as is exercised in managing its other valuable assets. As responsible fiduciaries, the System's staff, its designated voting agents, its investment managers, and the trustees or agents of the System's collective, common, or pooled fund investments will exercise their proxy voting rights in the sole interest of the System's members and in accordance with the applicable statutes.

The voting rights of individual stocks held in any separate account, or any collective, common, or pooled fund will be exercised by the manager, trustees, or agents of said account or fund in accordance with their own proxy voting policies, upon the review and determination by the System that such proxy policies fulfill the above-stated mandates.

I. Commission Recapture and Soft Dollar

The System encourages, but does not require, certain of its active equity managers to direct brokerage transactions to commission recapture brokers to the extent these brokers can provide best execution. Best execution is defined as achieving the most favorable price and execution service available, bearing in mind the System's best interests, and considering all relevant factors. The System will monitor on an ongoing basis the services provided by the commission recapture brokers so as to assure that the investment managers are securing the best execution of the Fund's brokerage transactions.

All rebates or credits from commissions paid by the System's investment managers to the commission recapture brokers will be realized in cash and remitted directly to the Fund. It is the System's policy to refrain from using soft-dollar credits to acquire products or services to be used in the internal administration of the Fund. If the generation of soft-dollar credits is unavoidable in certain instances, the System will make a best effort to have the credits

converted to cash and remitted directly to the Fund, and failing such conversion, will regularly monitor the managers' expenditure of soft-dollar credits to ensure an appropriate relationship to the management of their IPERS accounts.

J. Derivatives

The System recognizes that certain derivative instruments can be useful tools in managing portfolio risk and in efficiently replicating cash market positions. However, the System also recognizes that derivatives can introduce unique risks into the portfolio that must be controlled. The following guidelines shall apply to the use of derivatives by the System's managers, and are designed to provide general risk controls that apply to all managers. The System's staff and investment consultant shall establish specific guidelines in each manager's contract to control the various risks associated with the use of derivatives for a particular manager and mandate. With the exception of portable alpha strategies, a manager is only authorized to utilize the derivative instruments permitted in this policy, and then only to the extent such usage is authorized in the manager's contract with the System.

The System defines a derivative instrument (derivative) to be a financial instrument with a return or value that is obtained from the return or value of another underlying financial instrument. Mortgage-backed securities and asset-backed securities are not considered derivatives for the purposes of this policy.

The following is a list of categories of derivatives that are permitted under this policy:

1. Futures – Bond futures, interest rate futures, stock index futures and currency futures that are listed on major exchanges in the United States, Japan, France, the United Kingdom, and Germany
2. Options – Options on stocks and bonds, index options, currency options, and options on futures and swaps
3. Currency forward contracts
4. Swaps – Interest rate, currency, index, credit default, or specific security or a group of securities swaps
5. Warrants – A manager is not permitted to purchase warrants separately. However, a manager may purchase securities that have warrants attached to them if such securities are permitted under their contract. A manager may also hold warrants in its portfolio if such warrants were received as part of a restructuring or settlement concerning an authorized investment

The following restrictions shall apply to any manager using derivatives in the portfolio they manage for IPERS (in addition to any other restrictions or limitations included in the manager's contract):

1. Under no circumstances shall a manager use derivatives for the purpose of leveraging its portfolio.
2. Prior to utilizing any derivative, a manager shall take all steps necessary to fully understand the instrument, its potential risks and rewards, and the impact adverse market conditions could have on the instrument and the overall portfolio, and to

ensure that it has all of the operational and risk management capabilities required to prudently monitor and manage the derivative.

3. A manager utilizing nonexchange-traded derivatives shall use prudent caution in selecting counterparties, and shall have written policies in place specifying how the manager will manage the credit risk of the counterparties. Such policies shall include, at a minimum, how the management firm will evaluate and monitor the creditworthiness of counterparties, an explanation of how the firm will determine the maximum firm-wide net market exposure amount to each counterparty, how the firm will monitor and enforce compliance with its credit policies, and other key terms that are required to be included in nonexchange-traded derivative contracts. Staff and IPERS' investment consultant shall periodically review these policies.
4. A manager shall not invest in nonexchange-traded derivatives with a counterparty that has a rating below "A3" as defined by Moody's or "A-" as defined by Standard & Poor's (S&P). Managers shall not use unrated counterparties, nor shall they use counterparties that have a "split rating" where one of the ratings is below A3 by Moody's or A- by S&P. However, managers may utilize an unrated counterparty if the manager has documentation evidencing that a parent or affiliate of the counterparty is: a) legally bound to cover the obligations of the counterparty, and b) has a rating of at least A3 by Moody's or A- by S&P. The counterparty shall be regulated in either the United States or the United Kingdom.
5. A manager utilizing nonexchange-traded derivatives in IPERS' account shall control the counterparty credit risk of such transactions by: a) utilizing payment netting arrangements to minimize the amount at risk, b) performing daily marking-to-market of derivatives contracts, and c) requiring collateralization of net amounts owed under the contracts after meeting minimum threshold for transfers.
6. A manager shall limit the System's exposure to counterparty defaults from nonexchange-traded derivatives by limiting the dollar amount at risk with any counterparty (net of the value of any collateral held) to no more than 5 percent of the market value of the IPERS account for a counterparty with a rating above A by Moody's or A+ by S&P, or 3 percent of the market value of the IPERS account for a counterparty with a rating of or below A by Moody's or A+ by S&P. The limitations of this paragraph apply only to the net exposure attributable to nonexchange-traded derivatives.
7. Collateral provided to IPERS by counterparties under a derivatives contract shall be delivered to and held by the System's custodian bank.
8. Managers shall reconcile cash and margin requirements concerning derivatives on a daily basis with the System's custodian bank.
9. These restrictions do not apply to portable alpha strategies utilized by the System. In lieu of such restrictions, staff shall attempt to ensure that contracts with managers executing portable alpha strategies adequately address as many of the restrictions as possible while allowing these managers the latitude necessary to manage a portable alpha portfolio where the alpha and beta sources are in different asset classes.

10. Contracts for portable alpha portfolios will articulate the specific derivative usage allowed within the manager's strategy. Additionally, the contract will incorporate the derivatives exposure parameters for that strategy. The contract will also articulate the data to be provided to IPERS staff and consultants in order to enable sufficient monitoring and evaluation of derivatives exposures.

K. Social Investing

As fiduciaries, the IPERS Investment Board, staff and investment managers must perform their duties for the exclusive benefit and in the best economic interest of the System's members and beneficiaries. The System and the Board will not support investment policies or strategies which seek to promote specific social issues or agendas through investment or divestment of IPERS' assets. To act otherwise could be construed as a violation of fiduciary duty and could endanger the System's tax-exempt status.

L. Securities Monitoring and Litigation

IPERS has a fiduciary duty to preserve trust assets to meet the retirement promises made to its members. Included in this duty is the obligation to recover investments in public securities that incur losses as a result of corporate mismanagement and/or fraud. To preserve trust assets, the Board has adopted a securities monitoring and litigation policy to guide the System's involvement in and monitoring of securities litigation. (See Appendix D for IPERS' Securities Monitoring and Litigation Policy.)

M. Confidential Investment Information

Iowa Code §22.7 and §97B.17(2)e provide that certain records and information in IPERS' possession are considered confidential and thus are exceptions to Iowa's Open Records (chapter 22) laws. Included in the exceptions is information which, if released:

1. Could result in a loss to the System or to the provider of the information, and/or
2. Would give advantage to competitors and serve no public purpose, and/or
3. Would violate trade secrets which are recognized and protected by law.

While the staff shall provide the Board with all essential information about the investment program, communication of information that is confidential under the above Iowa Code provisions will be identified as such in the communication.

Iowa Code §97B.8A(5), an explicit exception to Iowa's Open Meetings (chapter 21) laws, reinforces the need and obligation to maintain the confidentiality of such information by expressly authorizing the Board to hold closed sessions for discussion of this information.

N. Ethics

Fiduciaries of the System must exercise the highest standards of care in acting for the exclusive benefit of the plan participants. IPERS has adopted an Ethics Policy to govern the activities of Board members, staff, consultants, and managers as it relates to the System. (See Appendix E for IPERS' Ethics Policy.)

O. Sudan Investment Restrictions and Divestment

Iowa Code chapter 12F requires IPERS to develop a list of scrutinized companies with operations in the Sudan, and to restrict its purchases of, and under certain circumstances, to divest of holdings of publicly traded securities in any company determined to have active business operations in the Sudan. To comply with this legislative mandate, IPERS will do the following:

1. Staff will develop a list of scrutinized companies with active business operations and inactive business operations (as such terms are defined in the legislation) by relying solely on the research and findings of the Sudan Divestment Task Force (the "Task Force"), the organization that developed the model legislation and is considered to be an authoritative source of information in this area. This list will be updated quarterly. Until such time as the Task Force clearly delineates in its reports which scrutinized companies have active business operations in the Sudan and which companies have inactive business operations, IPERS will treat all companies on the list that are characterized by the Task Force as "Highest Offenders" as companies having active business operations in the Sudan and thus subject to potential investment restrictions including divestment. IPERS will rely on the advice of the Task Force as to which companies that are not included on its Highest Offenders list are considered to be companies with inactive business operations.
2. Staff will post the list of scrutinized companies on the IPERS Web site within 30 days of its creation or update, with the posting to include information on the names and market values of scrutinized companies held in the IPERS investment portfolio. Annual reports required by the legislation will also be posted on IPERS' Web site.
3. Staff will be responsible for sending all required written notices to companies on the list of scrutinized companies and for maintaining files tracking correspondence with such companies so that compliance with the legislation can be monitored.
4. Staff will contact those investment managers that invest in direct holdings of securities on behalf of IPERS, and notify them of those companies with active business operations that have become subject to investment restriction and divestment. Said investment managers will be instructed to immediately cease purchasing the publicly traded securities of such company, and to sell any existing direct holdings of such company within 18 months of the date the company was first notified. The investment manager shall have the discretion to decide when to sell its holdings within the 18-month period.
5. Staff and consultant will track and include in its annual reports the costs, including any opportunity costs, associated with the Sudan legislation.
6. Staff will contact investment management firms that currently manage IPERS' assets in commingled funds and request, as required by law, that they consider developing Sudan-free commingled funds for the System's possible investment. If Sudan-free alternatives are available or become available, staff will develop an estimate of the costs that would apply in moving IPERS' investment to a Sudan-free commingled fund, and provide such estimate to the Board for its consideration. The Board shall determine if replacement with a Sudan-free commingled fund is consistent with prudent investing standards.

P. Continuing Education

The Investment Board consists of dedicated Iowans that have agreed to serve the public in the very important roles of fiduciary and trustee for the Fund. The Board members have been entrusted with making decisions concerning complex actuarial and investment issues. However, it is recognized that Board members have varying degrees of knowledge and experience in dealing with actuarial and investment issues. Therefore, to facilitate the ongoing education of its members so that they may obtain the knowledge required to make informed decisions, the Board establishes the following continuing education guidelines applicable to all Board members:

1. In the first 12 months following appointment, a Board member is encouraged to attend an educational session concerning fiduciary duties of trustees, and another educational session concerning asset allocation, actuarial principles, or investment policy;
2. For the period from 12 months following appointment until the end of the Board member's service on the Board, a Board member is encouraged to attend at least one educational session per year concerning any investment-related topic relevant to the Fund.
3. An "educational session" is defined as a conference, seminar, workshop, course, or other substantive educational activity on any investment or pension fund administration subject. If possible, staff will attempt to make some educational sessions annually available in Iowa in order to meet the needs of Board members' schedules.
4. Board members are responsible for self-evaluating their educational needs and obtaining knowledge in specific-needs areas in a fiscally responsible manner. Board members are encouraged to engage the CEO or IPERS investment staff to assist them in determining what educational sessions are available to meet their educational needs.
5. Board members must receive approval of the Board if they wish to attend more than two educational sessions in any 12-month period. This requirement applies only to educational sessions that require out-of-state travel.

IV. RESPONSIBILITIES OF THE INVESTMENT BOARD AND STAFF

Successful management and oversight of IPERS' investment activities require the Investment Board and staff to have specific responsibilities, as outlined below:

A. Statutory Responsibilities

1. The Board shall annually adopt an Investment Policy and Goal Statement which is consistent with Iowa Code §§ 97B.7A and 97B.8A.
2. The Board shall at least annually conduct a review of the investment policies and procedures utilized by the System.
3. The Board shall at least annually conduct a public meeting to review the policies and the investment performance of the Fund.

INVESTMENTS

4. With the approval of the Board, the Treasurer of State may conduct a program of lending securities in the IPERS portfolio.
5. The Board shall review and approve, prior to the execution of a contract, the hiring of each investment manager and investment consultant outside of state government.
6. The Board shall select the actuary to be employed by the System, and shall adopt the mortality tables, actuarial methods and assumptions to be used by the actuary for the annual valuation of assets.
7. The chief executive officer will consult with the Board prior to employing a chief investment officer.
8. The Board shall participate in the annual performance evaluation of the chief investment officer.
9. The chief executive officer shall consult with the Board on the budget program for the System.
10. The Treasurer of State shall consult with the Board prior to selecting any bank or other third party for purposes of investment asset safekeeping, other custody, or settlement services.
11. The Board shall consist of seven voting members and four nonvoting members as required by Iowa Code section 97B.8A. Four voting members of the Board shall constitute a quorum.
12. Staff shall provide advance notice to the public of the time, date, tentative agenda, and place of each Board meeting in compliance with Iowa Code chapter 21.
13. The Board shall set the salary of the chief executive officer.

B. Operational Responsibilities

1. Upon recommendation of the staff, consultants, or of individual Board members, the Board shall periodically and as necessary adopt changes to the Investment Policy and Goal Statement, including revisions to the Policy Benchmark targets, beta portfolio components, and alpha risk budgets.
2. The Board shall review the specific types and proportions of assets being utilized in implementing the overall policy, as established by the staff (for example, the proportion of mortgage bonds within the Core Plus Fixed Income portfolio).
3. The Board shall periodically review the staff's rebalancing activities and the System's compliance with Policy Benchmark Weights and Alpha Risk Targets within their designated ranges.
4. The Board shall approve the solicitation of proposals for investment managers as recommended by the staff. The staff shall have the authority to terminate, amend, or renew contracts with existing managers. Staff shall inform the Board in advance of its decision to terminate a manager.

INVESTMENTS

5. The Board shall approve the termination of consultants and the solicitation of proposals for consultants. The staff shall have the authority to amend or renew contracts with existing consultants.
6. If the chief executive officer, chief investment officer, any investment officer, or any IPERS attorney is in possession of information which would lead a reasonable person familiar with such matters to conclude that an investment, or a commitment to an investment, or a decision to engage or terminate a contracted service provider, contradicts the fiduciary duties of the party or parties having the final authority to take such actions, it is the Board's expectation that the issue will be placed on a Board meeting agenda for review.
7. The Board shall hold public meetings to review the investment performance of the Fund, to hear presentations from a portion of the System's investment managers, and to effect its statutory and operational responsibilities.
8. To maintain and strengthen the investment management of the System:
 - a. The Board and staff shall participate in conferences/seminars related to the investment activities of public and private institutional investors.
 - b. The staff, and as appropriate, the Board, shall meet periodically with the investment managers of the Fund at the firms' offices to review and clarify investment or administrative issues related to the management of the portfolio.
 - c. The staff, and as appropriate, the Board, shall participate in investor meetings conducted by the various managers of the Fund.

These activities shall be conducted in compliance with Iowa Code chapter 68B, the "Iowa Public Officials Act."

C. Administrative Responsibilities

1. Board meeting dates for the fiscal year shall be set by members of the Board at the first meeting of the fiscal year.
2. At the first meeting in each fiscal year, the voting Board members shall elect a chair and vice chair.
3. Parties wishing to present items for the Board's next meeting agenda shall file a written request with the chair at least five business days prior to the meeting. The Board may take up matters not included on its agenda.
4. To the extent there is no law, statute, or administrative rule governing a procedure, Board meetings shall be governed by the procedural rules established in the latest version of Robert's Rules of Order, Newly Revised.





ACTUARIAL

Actuary's Certification Letter

Principal Valuation Results

Actuarial Balance Sheet

Solvency Test

Schedule of Active Member Valuation Data

Retirees and Beneficiaries—
Changes in Rolls

Actuarial Assumptions
and Methods

 **IAPERS**



1120 South 101st Street
Suite 400
Omaha, NE 68124
USA

Tel +1 402 393 9400
Fax +1 402 393 1037

milliman.com

November 18, 2009

This report presents the results of the June 30, 2009 actuarial valuation of the Iowa Public Employees' Retirement System (IPERS). The primary purposes of performing the valuation are as follows:

- to evaluate the sufficiency of the statutory contribution rate structure to fund the benefits expected to be paid to regular members in the future and to determine if the Plan's funding meets the criteria set out in the Funding Policy established by IPERS,
- to determine the actuarial contribution rates for the Special Service Groups,
- to evaluate the funded status of the System and disclose various asset and liability measures as of June 30, 2009,
- to determine the experience of the System since the last valuation, and
- to analyze and report on trends in System contributions, assets, and liabilities over the past several years.

The actuarial assumptions and methods are unchanged from last year's report. The actuarial valuation results provide a "snapshot" view of the System's financial condition on June 30, 2009. The results reflect net unfavorable experience for the past plan year as demonstrated by an unfunded actuarial liability (UAL) that was higher than expected, based on current actuarial assumptions. The UAL on June 30, 2009 for all membership groups covered by IPERS (Regular members and both Special Service Groups) is \$4.895 billion as compared to an expected UAL of \$2.856 billion. The unfavorable experience was the sum of an experience loss of \$1.9 billion on the actuarial value of assets and an experience loss of \$0.1 billion on System liabilities.

The statutory contribution rate for regular members had been 9.45% (3.70% for members and 5.75% for employers) since 1979. For several years, the valuation had indicated the 9.45% statutory contribution rate was insufficient to finance the benefits provided by IPERS. In 2006, legislation was passed that increased the statutory contribution rate 0.50% per year for four years commencing on July 1, 2007. The increase each year is shared 40% by the members and 60% by the employers. By July 1, 2010, the statutory contribution rate is scheduled to reach 11.45% of pay. Legislation passed in 2008 gave IPERS the authority to implement actuarially determined contribution rates for the regular membership group after fiscal year 2011. However, the contribution rate may not change by more than 0.50% in any single year. In the valuation, future increases in contribution rates are reflected for purposes of analyzing the long term funding of the System. However, for purposes of reporting under Governmental Accounting Standards, future increases in the contribution rate are not reflected. This valuation reflects the third scheduled increase in the contribution rate from 10.45% to 10.95%. The change in the member contribution rate results in higher projected refunds for members who terminate active employment because the amount of employer money refunded increases. The higher benefits translate to higher liabilities and a slightly higher normal cost.



The summary of the 2009 valuation results are shown below:

Contribution Rate for FY2011			
	Regular Membership	Special Service Group 1*	Special Service Group 2**
1. Normal Cost Rate	9.97%	15.57%	15.92%
2. Amortization of UAL over 30 years	<u>4.15%</u>	<u>2.31%</u>	<u>0.67%</u>
3. Total Contribution Rate	14.12%	17.88%	16.59%
4. Member Contribution Rate	4.50%	8.94%	6.64%
5. Employer Contribution Rate (3) – (4)	9.62%	8.94%	9.95%
6. Statutory/Expected Contribution	<u>6.95%</u>	<u>8.94%</u>	<u>9.95%</u>
7. Shortfall (5) – (6)	2.67%	0.00%	0.00%
8. Years to Amortize (Based on (6))	Infinite	30	30
9. Unfunded Actuarial Liability (\$M)	\$4,822	\$37	\$35
10. Funded Ratio	80.5%	91.0%	96.0%
* Includes Sheriffs and Deputies.			
** Includes all other public safety members.			

Actuarial Value of Net Assets

For financial statement purposes, the System's assets are reported at current fair values. For actuarial purposes, the assets are valued using a technique which dampens the volatility in the fair value. Specifically, the assets are valued at their expected value at the valuation date (based on the assumed rate of investment return) plus 25% of the difference between the fair value and the expected value on the valuation date. The actuarial value of assets must fall within a corridor of 80% to 120% of market value. Based on this methodology, there was an actuarial loss on assets of about \$1.9 billion. Between June 30, 2008 and June 30, 2009, the actuarial value of assets decreased by \$733 million. This represented an approximate rate of return of -1.3%, less than the actuarial assumed rate of 7.5%.

Liabilities

The actuarial liability is that portion of the present value of future benefits that will not be paid by future normal costs. The difference between this liability and the actuarial value of assets at the same date is called the unfunded actuarial liability (UAL). The dollar amount of unfunded actuarial liability is reduced if the contributions to the System exceed the normal cost for the year plus interest on the prior year's UAL.

The unfunded actuarial liability by group is shown as of June 30, 2009 in the following table:

(\$Millions)	Regular Membership	Special Service 1	Special Service 2	Total*
Actuarial Liability	\$24,733	\$412	\$873	\$26,019
Actuarial Value of Assets	19,911	375	838	21,124
Unfunded Actuarial Liability	4,822	37	35	4,895
Funded Ratio	80.5%	91.0%	96.0%	81.2%

*Totals may not add due to rounding.



November 18, 2009

Page 3

Actuarial gains (losses) result from actual experience that is more (less) favorable than anticipated based on the actuarial assumptions. These “experience” (or actuarial) gains or losses are reflected in the UAL and are measured as the difference between the expected unfunded actuarial liability and the actual unfunded actuarial liability, taking into account any changes due to assumption, methodology or benefit provision changes. Overall, the System experienced a net actuarial loss of \$2,039 million.

The net actuarial loss may be explained by considering the separate experience of assets and liabilities. As noted in the previous section, assets had a \$1,903 million loss when measured on an actuarial value basis. The liability loss was \$136 million (or about 0.5% of total actuarial liability) and arises from demographic experience less favorable than anticipated by the actuarial assumptions. The largest component of this loss was due to actual salary increases for active members that were higher than expected. The average salary increase for members who were active in both the 2008 and 2009 valuations was 7.7%, or about 1.7% higher than expected, resulting in an actuarial loss of about \$105 million.

The change in the unfunded actuarial liability between June 30, 2008 and 2009 is shown below (in millions):

Unfunded Actuarial Liability, June 30, 2008	\$	2,665
• Expected increase from amortization method	+	52
• Expected increase from contributions below actuarial rate	+	140
• Investment experience	+	1,903
• Liability and other experience (including transfers)	+	135
Unfunded Actuarial Liability <u>before</u> FED transfer, June 30, 2009	\$	4,895
• FED Transfer	+	0
Unfunded Actuarial Liability <u>after</u> FED transfer, June 30, 2009	\$	4,895

Contribution Rate

Under the Entry Age Normal cost method, the actuarial contribution rate consists of two components:

- a "normal cost" for the portion of projected liabilities allocated by the actuarial cost method to service of members during the year following the valuation date, and
- an "unfunded actuarial liability contribution" for the excess of the portion of projected liabilities allocated to service to date over the actuarial value of assets on hand.

In 2006 and 2008, legislation was passed that increased the statutory contribution rate for regular members as shown in the following table:

Contribution Rates			
Time Period	Member	Employer	Total
Prior to 7/1/07	3.70%	5.75%	9.45%
7/1/07 – 6/30/08	3.90%	6.05%	9.95%
7/1/08 – 6/30/09	4.10%	6.35%	10.45%
7/1/09 – 6/30/10	4.30%	6.65%	10.95%
7/1/10 – 6/30/11	4.50%	6.95%	11.45%
7/1/11 and later	Actuarially Determined*		

*May not change by more than 0.50% per year.



Although the entry age normal cost method develops a normal cost rate that is expected to be relatively level, it will fluctuate from year to year depending on the demographic composition of the active members. This year as in past years, the normal cost rate for regular members increased slightly from 9.90% to 9.92% due to changes in the demographic composition of the regular membership group. In addition, the higher contribution rates result in higher benefits for members who elect a refund of contributions because the amount of employer money refunded is higher. As a result, the normal cost rate for regular members increased 0.05% from 9.92% to 9.97%.

Despite the 0.50% increase in the statutory contribution rate this year, there is still only a small part of the total contribution rate that is available to fund the UAL. When future increases in the statutory contribution rate for regular members are considered, higher contributions will be available to fund the UAL. However, given the return on the market value of assets for FY2009, the actual statutory contribution rate is not expected to reach the actuarial contribution rate for nearly 20 years. The contribution rate at that time is expected to be close to 20%. These projections are based on the projection model prepared in conjunction with the 2008 valuation. Updated estimates will be run once the 2009 model has been completed. The actuarial contribution rates in years after FY2011 will be heavily dependent on future investment experience, especially that which occurs in the next few years.

The contribution rates are summarized in the following table:

Contribution Rate for FYE 2011	Regular Membership	Special Service 1	Special Service 2
1. Total Actuarial Contribution Rate	14.12%	17.88%	16.59%
2. Member Contribution Rate	<u>4.50%</u>	<u>8.94%</u>	<u>6.64%</u>
3. Employer Contribution Rate (1) – (2)	9.62%	8.94%	9.95%
4. Employer Statutory Contribution Rate	<u>6.95%</u>	<u>8.94%</u>	<u>9.95%</u>
5. Shortfall (3) – (4)	2.67%	0.00%	0.00%

IPERS adopted its Funding Policy in 1996. The purpose of the Funding Policy is to provide a basis for the evaluation of the System's funded status and to provide a set of safeguards to help ensure the financial solvency of the System. The Funding Policy defines the term "fully funded" to mean the current actuarial value of assets plus the present value of future expected contributions is equal to or greater than the present value of future benefit payments. There is an additional requirement that the amortization period not exceed 30 years in order for the System to be "fully funded."

Based on the current UAL amount and amortization payment for FY2011, the amortization period is infinite. In order for the System to be "fully funded" in the current valuation (the amortization period to be 30 years), the resulting contribution rate would need to increase by 2.67% to 14.12% of payroll. This rate is determined based on the snapshot of the System taken on the valuation date, June 30, 2009, and applies only for the fiscal year beginning July 1, 2010. The rate necessary for the System to continue to be "fully funded" in future years will change each year as the deferred actuarial investment experience is recognized and other experience (both investment and demographic) impacts the System.

Summary

Despite the use of an asset smoothing method, the System's funded ratio dropped from 89% last year to 81% in this year's valuation, primarily due to the investment experience in FY2009. Most public retirement plans have similar asset allocations and experienced significant asset losses. The investment return on the market value of assets for FY2009 was -16%. When compared to the expected return of +7.50%, the assets were about 24% lower than expected. Such a dramatic drop in the asset value results in a decline in the funded ratio and an increase in the actuarially required contribution. If the contribution rate were determined in this year's valuation with an amortization period of 30 years (which is the requirement in IPERS' Funding Policy for the System to be "fully funded"), the FYE 2011 contribution rate would be 14.12% of payroll, as compared to the statutory FYE 2011 contribution rate of 11.45%. This rate is determined based on the snapshot of the System taken on the valuation date,



June 30, 2009, and applies only for the fiscal year beginning July 1, 2010. The rate necessary for the System to continue to be “fully funded” in future years will change each year as the deferred actuarial investment experience is recognized and as other experience (both investment and demographic) impacts the System.

Retirement plans use several mechanisms to provide more stability in the contribution rate. These include an asset smoothing method, which smooths out the peaks and valleys of investment returns, and amortization of actuarial gains or losses. The System utilizes an asset smoothing method that only recognizes 25% of the difference between expected value on assets, using the assumed rate of return, and actual market return. However, the resulting value must be no less than 80% and no more than 120% of market value (referred to as a corridor). The 120% limit on the corridor did apply this year.

Given the size of the investment loss, a significant increase in the actuarially required contribution level could not be avoided, even with the use of these “stability mechanisms.” The normal cost rate remained fairly stable as a percentage of payroll, but the System’s unfunded actuarial accrued liability increased from \$2.7 billion to \$4.9 billion. As a result, the actuarially required contribution rate increased for all three groups.

As mentioned above, the System utilizes an asset smoothing method in the valuation process. While this is a common procedure for public retirement systems, it is important to identify the potential impact of the deferred (unrecognized) investment experience. The asset smoothing method impacts only the timing of when the actual market experience on the assets is recognized in the valuation process. Due to the dramatically negative return in FY2009, the corridor of 120% of market value applied to the actuarial value of assets this year so actuarial value exceeds the pure market value by 20%. If asset returns are not significantly higher than 7.5% over the next few years, the \$3.5 billion of deferred investment experience will be recognized and the actuarially required contribution rate can be expected to increase significantly.

The 2006 Legislature passed legislation that increased the statutory contribution rate from 9.45% to 11.45% over a four-year period commencing July 1, 2007. Legislation passed in 2008 provides IPERS with the authority to implement actuarially determined contribution rates for regular members, but the change in the contribution rate cannot exceed 0.50% per year. The actuarial contribution rate for fiscal year end June 30, 2009 was 12.02%, while the statutory contribution rate was 10.45% of covered payroll. This difference between the actual and actuarial contribution rate increased the unfunded actuarial accrued liability for regular members by about \$140 million. Contribution rates in the short term are expected to continue to be less than the actuarial rate. To the extent the System does not have investment returns above the assumed rate of 7.50% or other favorable experience sufficient to offset the contribution shortfall, the unfunded actuarial accrued liability will increase.

The long-term financial health of this retirement system is heavily dependent on two key items: (1) future investment returns and (2) contributions to the System. Given the System’s funded status, the magnitude of the deferred investment losses, and the current schedule of contribution rates, the funded ratio of the System is expected to decline and remain around 60%. If, as expected, the funded status declines, it may impact the sustainability of the current benefit structure over the long term. The System has been analyzing options to strengthen the long-term funding of the System. We recommend the discussion continue and action be taken to improve the System’s long-term funding.

In performing the valuation, we have relied upon membership and financial data reported to us by the System. We did not verify the accuracy of the information but did review it for reasonableness in relation to the data submitted for previous years. We provided the Principal Valuation Results, the Actuarial Balance Sheet and the Solvency Test in the Actuarial section. We also provided some information in the Financial section, including the Schedule of Funding Progress and the contribution rates used to calculate the actuarially required contribution on the Schedule of Employer Contributions.

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this information is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Actuarial Standards of Practice promulgated by the Actuarial Standards Board and the applicable Guides to Professional Conduct, amplifying Opinions, and supporting Recommendations of the American Academy of Actuaries.



November 18, 2009

Page 6

We further certify that all costs, liabilities, rates of interest and other factors for the System have been determined on the basis of actuarial assumptions and methods which are individually reasonable (taking into account the experience of the System and reasonable expectations of future experience); and which, in combination, offer our best estimate of anticipated experience affecting the System. Nevertheless, the emerging costs will vary from those presented in this report to the extent actual experience differs from that projected by the actuarial assumptions. The Investment Board has the final decision regarding the appropriateness of the assumptions and adopted them as of the dates shown for each assumption.

We also hereby certify that the assumptions and methods used for determining the funding requirements used in the preparation of the disclosure information under GASB Statement 25 meet the parameters imposed by the Statement.

Actuarial computations presented in the 2009 actuarial valuation report are for purposes of determining the recommended funding amounts for the System. Actuarial computations under GASB Statement No. 25 are for purposes of fulfilling financial accounting requirement. The computations prepared for these two purposes may differ as disclosed in the 2009 actuarial valuation report. The calculations have been made on a basis consistent with our understanding of the System's funding requirements and goals, and of GASB Statement No. 25. Determinations for purposes other than meeting these requirements may be significantly different from the results shown in the 2009 actuarial valuation report. Accordingly, additional determinations may be needed for other purposes.

In conclusion, on the following page we present comparative statistics and actuarial information on both the June 30, 2009 and June 30, 2008 valuations. All figures shown include the regular membership and the two Special Service Groups. The membership counts reflect the data as of June 30, appropriate for valuation purposes, and may differ from other reporting numbers.

I, Patrice A. Beckham, F.S.A., am a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries, and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Respectfully Submitted,

MILLIMAN, INC.

A handwritten signature in cursive script that reads "Patrice Beckham".

Patrice A. Beckham, F.S.A.
Consulting Actuary

PRINCIPAL VALUATION RESULTS

	June 30, 2009	June 30, 2008	% Chg
SYSTEM MEMBERSHIP			
1. Active Membership			
- Number of Members (excluding Retired/Reemployed)	167,691	167,823	-0.1
- Projected Payroll for Upcoming Fiscal Year	\$6,762M	\$6,464M	4.6
- Average Salary	\$40,326	\$38,515	4.7
2. Inactive Membership			
- Number Not in Pay Status	66,098	64,348	2.7
- Number of Retirees/Beneficiaries	89,718	87,309	2.8
- Average Annual Benefit	\$12,443	\$11,927	4.3
ASSETS AND LIABILITIES			
1. Net Assets (excluding FED reserve)			
- Market Value	\$17,603M	\$21,844M	(19.4)
- Actuarial Value	21,124M	21,857M	(3.4)
2. Projected Liabilities			
- Retired Members	\$10,623M	\$9,923M	7.1
- Inactive Members	538M	510M	5.5
- Active Members	20,287M	19,235M	5.5
- Total Liability	31,449M	29,668M	6.0
3. Actuarial Liability	\$26,019M	\$24,522M	6.1
4. Unfunded Actuarial Liability	\$4,895M	\$2,665M	83.7
5. Funded Ratio			
a. Actuarial Value Assets/Actuarial Liability	81.19%	89.13%	(8.9)
b. Market Value Assets/Actuarial Liability	67.66%	89.08%	(24.0)
SYSTEM CONTRIBUTIONS			
Statutory Contribution Rate*	11.45%	10.95%	4.6
Years Required to Amortize Unfunded Actuarial Liability	Infinite	Infinite	N/A
Total Actuarial Contribution Rate	14.12%	12.34%	14.4
Member Contribution Rate	4.50%	4.30%	4.7
Employer Contribution Rate	9.62%	8.04%	19.7

M = (\$) Millions

*Contribution rates for certain special groups (5% of membership) are not fixed by statute but are actuarially determined each year.

Note: For valuation purposes, the data provided by IPERS was reclassified by Milliman into the membership category that would most accurately reflect the actuarial liability of the individual member on the valuation date. As a result, the counts shown in this exhibit may vary from those shown in other sections of this report.

**ACTUARIAL BALANCE SHEET
JUNE 30, 2009**

	Regular Membership	Special Service Group 1*	Special Service Group 2**	Total
<u>ASSETS</u>				
Actuarial Value of Assets	\$19,911,266,556	\$375,016,567	\$837,696,819	\$21,123,979,942
Present Value of Future Normal Costs	4,903,191,525	111,261,132	416,000,288	5,430,452,945
Present Value of Future Contributions to Amortize Unfunded Actuarial Liability	<u>4,822,217,065</u>	<u>37,150,534</u>	<u>35,246,282</u>	<u>4,894,613,881</u>
Total Net Assets	\$29,636,675,146	\$523,428,233	\$1,288,943,389	\$31,449,046,768
<u>LIABILITIES</u>				
Present Value of Future Benefits:				
Retired Members and Beneficiaries	\$10,238,166,793	\$150,926,387	\$234,387,583	\$10,623,480,763
Active Members	18,886,492,458	366,720,926	1,034,078,487	20,287,291,871
Inactive Members	<u>512,015,895</u>	<u>5,780,920</u>	<u>20,477,319</u>	<u>538,274,134</u>
Total Liabilities	\$29,636,675,146	\$523,428,233	\$1,288,943,389	\$31,449,046,768

* Includes Sheriffs and Deputies.

** Includes all other public safety members.

SOLVENCY TEST

A short-term solvency test, which is one means of determining a system's progress under its funding program, compares the plan's present assets with: 1) the liability for active member contributions on deposit; 2) the liability for future benefits to present retirees; and 3) the liability for service already rendered by active members. In a system that has been following the level percent of payroll financing discipline, the obligation for active member contributions on deposit (Item 1) and the liabilities for future benefits to present retired lives (Item 2) will be fully covered by present assets with the exception of rare circumstances. The obligation for service already rendered by active members (Item 3) will be partially covered by the remainder of present assets. Absent any significant benefit changes, if the system has been using level cost financing, the funded portion of Item 3 usually will increase over a period of time.

Actuarial Valuation	Active Member Contributions	Retirees and Beneficiaries	Active Members Employer Financed Portion	Actuarial Value of Assets	Portions of Liabilities Covered by Assets		
	(1)		(3)		(1)	(2)	(3)
2009	\$3,501,951,261	\$10,623,480,763	\$11,893,161,799	\$21,123,979,941	100%	100%	59%
2008	3,343,722,874	9,922,758,244	11,255,735,471	21,857,423,183	100%	100%	76%
2007	3,165,389,448	9,217,242,773	10,643,481,561	20,759,628,415	100%	100%	79%
2006	3,027,543,237	8,448,946,704	10,174,632,478	19,144,036,519	100%	100%	75%
2005	2,891,029,224	7,841,276,253	9,507,793,190	17,951,490,071	100%	100%	76%
2004	2,806,441,058	7,255,282,305	9,066,687,243	16,951,942,539	100%	100%	76%

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Year Ended	Number	Annual Payroll	Annual Average Pay	Percentage Increase in Average Pay
2004	160,034	\$ 5,072,027,906	\$ 31,693	3.47
2005	160,905	5,236,860,886	32,546	2.69
2006	163,091	5,523,863,321	33,870	4.07
2007	165,241	5,781,706,199	34,990	3.31
2008	167,850	6,131,445,367	36,529	4.40
2009	167,717	6,438,643,124	38,390	5.09

RETIREEES AND BENEFICIARIES—CHANGES IN ROLLS

Schedule of Retirees Added to and Removed from Rolls								
Year Ended	Added to Rolls		Removed from Rolls		Rolls at Year-End		Percentage Increase in Annual Allowances	Average Annual Allowances
	Number*	Annual Allowances	Number	Annual Allowances	Number	Annual Allowances		
2004	4,943	\$62,470,578	2,531	\$ 8,627,012	73,848	\$ 739,638,035	7.85	\$10,016
2005	4,879	76,691,638	2,424	8,930,349	76,303	807,399,324	9.16	10,581
2006	4,892	71,906,397	2,510	10,155,290	78,685	869,150,431	7.65	11,046
2007	5,246	88,603,387	2,718	10,883,501	81,213	946,870,317	8.94	11,659
2008	5,098	92,991,307	2,687	10,789,250	83,624	1,029,072,374	8.68	12,306
2009	4,908	92,013,786	2,761	12,041,683	85,771	1,109,044,477	7.77	12,930

*The number of retirees added to rolls may not equal the number of new retirees reported in other sections of the CAFR due to retirees that began payments in the fiscal year but were not receiving payments at the end of the fiscal year. These retirees are included in the "added to rolls" and the "removed from rolls" columns of this table; whereas, only new retirees that were receiving benefits as of fiscal year-end are reported elsewhere throughout the CAFR.

Schedule of Beneficiaries Added to and Removed from Rolls								
Year Ended	Added to Rolls		Removed from Rolls		Rolls at Year-End		Percentage Increase in Annual Allowances	Average Annual Allowances
	Number	Annual Allowances	Number	Annual Allowances	Number	Annual Allowances		
2004	398	\$3,053,995	185	\$563,755	3,113	\$22,916,377	12.19	\$7,362
2005	386	2,964,764	198	724,001	3,301	25,157,140	9.78	7,621
2006	390	3,237,968	172	681,014	3,519	27,714,094	10.16	7,876
2007	374	3,299,984	157	857,512	3,736	30,156,566	8.81	8,072
2008	335	3,673,542	205	934,239	3,866	32,895,869	9.08	8,509
2009	429	3,930,377	214	876,249	4,081	35,949,997	9.28	8,809

ACTUARIAL ASSUMPTIONS AND METHODS

ECONOMIC ASSUMPTIONS:

Rate of Inflation (effective June 30, 2006)

3.25% per annum

Rate of Crediting Interest on Contribution Balances (effective June 30, 2006)

4.00% per annum, compounded annually

Rate of Investment Return (effective June 30, 1996)

7.50% per annum, compounded annually, net of expenses

Wage Growth Assumption (effective June 30, 1999)*

4.00% per annum based on 3.25% inflation assumption and 0.75% real wage inflation

*Total of 4.00% did not change but the components changed June 30, 2006

Payroll Increase Assumption (effective June 30, 1999)

4.00% per year

DEMOGRAPHIC ASSUMPTIONS:

Rates of Mortality (effective June 30, 2002)

	<u>Regular Membership</u>	<u>Special Service Groups</u>
Males:		
Retirees:	RP-2000 Healthy Annuitant Table, Set Forward One Year	RP-2000 Healthy Annuitant Table, Set Forward Three Years
Actives:	RP-2000 Employee Table, Set Forward One Year	RP-2000 Employee Table, Set Forward Three Years
Females:		
Retirees:	RP-2000 Healthy Annuitant Table, Set Back Two Years	RP-2000 Healthy Annuitant Table, No Age Adjustment
Actives:	RP-2000 Employee Table, Set Back Two Years	RP-2000 Employee Table, No Age Adjustment
	The RP-2000 Tables are used with generational mortality	
Beneficiaries:	Same as members	Same as members
Disabled Members:	Annual rates are the greater of 3% or 2.5% plus the corresponding non-disabled rate (based on GAM 94 for males, 95% of GAM 94 for females)	Same as healthy members, Set forward 6 years

For Special Service Groups active members, 5% of deaths are assumed to be service related.

Retirement Rates (effective June 30, 2002)

Upon meeting the requirements for early retirement, the following rates apply to regular members:

<u>Age</u>	<u>Assumed Retirement Rate</u>
55-59	5%
60	10%
61	15%
62	25%
63-64	20%

Upon reaching the requirements for normal retirement, the following rates apply:

<u>Age</u>	<u>Assumed Retirement Rates</u>		
	<u>1st Year Eligible</u>	<u>After 1st Year</u>	<u>Special Service Groups</u>
55	20%	10%	15%
56	20%	10%	10%
57-59	20%	20%	10%
60	25%	25%	10%
61	35%	30%	20%
62	50%	40%	35%
63	35%	30%	20%
64	35%	35%	35%
65	30%	45%	100%
66	20%	20%	100%
67-68	15%	15%	100%
69	15%	35%	100%
70+	100%	100%	100%

Special Service Group 1 ages 50 to 55 with 22 years of service: 30%

Terminated vested members are assumed to retire at age 62 (55 for Special Service Groups).

For regular membership, retired reemployed members are assumed to retire at a rate of 25% per year until age 80 when all are assumed to retire.

Rates of Disablement (effective June 30, 1999, for Regular Membership), (effective June 30, 2006, for Special Service Groups)

<u>Age</u>	<u>Annual Rate Per 1,000 Members</u>		
	<u>Males</u>	<u>Females</u>	<u>Special Service Groups</u>
27	0.2	0.2	1.1
32	0.2	0.2	1.2
37	0.4	0.3	1.8
42	0.7	0.5	3.5
47	1.4	0.9	6.5
52	3.3	2.2	14.6
57	6.3	3.9	26.0
62	9.0	6.2	48.7

ACTUARIAL

Rates of Termination of Employment (effective June 30, 2002)

Regular Membership

		Annual Rate of Withdrawals Per 1,000 Members					
<u>Males:</u>		<u>Years 0-1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Years 4-6</u>	<u>Years 7-8</u>	<u>Years 9+</u>
<u>Age</u>							
22		330.0	250.0	165.0	165.0	110.0	66.0
27		231.0	145.0	121.0	99.0	88.0	66.0
32		198.0	145.0	110.0	74.8	55.0	38.5
37		195.8	140.0	110.0	74.8	49.5	33.0
42		195.8	140.0	110.0	74.8	49.5	25.3
47		195.8	130.0	99.0	74.8	49.5	19.8
52		176.0	110.0	77.0	74.8	49.5	19.8
55+		165.0	110.0	55.0	74.8	49.5	19.8
<u>Females:</u>		<u>Years 0-1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Years 4-6</u>	<u>Years 7-8</u>	<u>Years 9+</u>
<u>Age</u>							
22		330.0	250.0	220.0	220.0	165.0	55.0
27		275.0	170.0	140.0	110.0	99.0	55.0
32		247.5	170.0	140.0	104.5	71.5	49.5
37		198.0	150.0	110.0	104.5	66.0	36.3
42		198.0	150.0	110.0	88.0	60.5	30.8
47		198.0	130.0	110.0	82.5	49.5	25.3
52		198.0	130.0	110.0	82.5	49.5	25.3
55+		198.0	130.0	110.0	82.5	49.5	25.3

Special Service Groups

Annual Rate of Withdrawals Per 1,000 Members	
<u>Age</u>	
22	90
27	70
32	35
37	35
42	35
47	35
52	30

Probability of Electing a Vested Benefit (effective June 30, 2002)

<u>Years of Service</u>	<u>Regular Membership</u>		<u>Special Service Groups</u>
	<u>Males</u>	<u>Females</u>	
5	61%	70%	53%
10	66%	73%	65%
15	71%	80%	85%
20	76%	85%	95%
25	80%	90%	100%
30	80%	90%	100%

Rates of Salary Increase* (effective June 30, 2006)

<u>Years of Service</u>	<u>Annual Increase</u>	<u>Years of Service</u>	<u>Annual Increase</u>	<u>Years of Service</u>	<u>Annual Increase</u>
Under 2	12.0%	11	5.3%	22	4.5%
2	9.5%	12	5.2%	23	4.4%
3	7.7%	13	5.1%	24	4.4%
4	7.1%	14	5.0%	25	4.4%
5	6.6%	15	4.9%	26	4.3%
6	6.1%	16	4.8%	27	4.3%
7	5.9%	17	4.7%	28	4.2%
8	5.7%	18	4.6%	29	4.1%
9	5.5%	19	4.6%	30	4.0%
10	5.4%	20	4.5%	Over 30	4.0%
		21	4.5%		

*Includes 4.0% wage growth.

ACTUARIAL COST METHOD

The actuarial cost method is a procedure for allocating the actuarial present value of pension plan benefits and expenses to time periods. The method used for the valuation is known as the entry age normal actuarial cost method. Under this method, a total contribution rate is determined which consists of two parts: (i) the normal cost rate and (ii) the unfunded actuarial liability (UAL) rate. The entry age normal cost method has the following characteristics:

- (i) The annual normal costs for each individual active member are sufficient to accumulate the value of the member's pension at time of retirement.
- (ii) Each annual normal cost is a constant percentage of the member's year-by-year projected compensation rates.

The entry age normal actuarial cost method allocates the actuarial present value of each member's projected benefits on a level basis over the member's compensation rates between the entry age of the member and the assumed exit ages.

The portion of the actuarial present value allocated to the valuation year is called the normal cost. The portion of the actuarial present value not provided for by the actuarial present value of future normal costs is called the actuarial accrued liability. Deducting the actuarial value of assets from the actuarial accrued liability determines the unfunded actuarial liability (UAL). For regular members, the difference between the statutory contribution rate and the normal cost rate is used to finance the UAL and the number of years necessary to finance the unfunded actuarial accrued liability as a level percent of member payroll is determined. For Special Service members, the contribution rate is the sum of the normal cost rate and the rate required to amortize the UAL or surplus over 30 years.

ASSET SMOOTHING METHOD

The market value of assets, representing a fair value of System assets, may not necessarily be the best measure of the System's ongoing ability to meet its obligations.

To arrive at a suitable value for the actuarial valuation, a technique for determining the actuarial value of assets is used which dampens volatility in the market value while still indirectly recognizing market value. The specific technique follows:

- Step 1:** Determine the expected value of plan assets at the current valuation date using the actuarial assumption for investment return applied to the prior actuarial value and the actual receipts and disbursements of the Fund for the previous 12 months.
- Step 2:** Subtract the expected value determined in Step 1 from the total market value of the Fund at the current valuation date.
- Step 3:** Multiply the difference between market and expected values determined in Step 2 by 25%.
- Step 4:** Add the expected value of Step 1 and the product of Step 3 to determine the actuarial value of assets.
- Step 5:** Verify the preliminary actuarial value of assets in Step 4 is not more than 120% of the market value of assets nor less than 80% of the market value. If it is, adjust the actuarial value of assets so it falls within the 80% – 120% corridor.





STATISTICAL

Statistical Overview

Membership Summary

Growth of Net Investment Portfolio Assets

Investment Returns 1981–2009

IPERS

Statistical Overview

Objectives

The objectives of the Statistical section are to provide additional detail and historic context to enable a financial statement user to better assess and understand the System's financial condition. Data in this section is presented in multiple-year format to enable the assessment of trends. In implementing GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*, the intent was to improve consistency and comparability in financial reporting for all governmental entities.

Contents

The Statistical section provides financial, demographic, operating, and investment trend information. The financial trend information presented in the Changes in Net Assets and the Membership Summary on pages 128–130 is intended to assist in understanding and assessing how the System's financial position has changed over time.

The demographic and operating information presented on pages 131–139 provides data on IPERS' membership, including years of credited service, benefits, benefit options, active membership statistics, and principal participating employers.

The investment information presented on pages 140 and 141 shows the growth of net investment portfolio assets since 1984 and investment returns since 1981.

Tables related to types of refunds have not been included in the Statistical section because IPERS pays only one type of refund.

Data Sources

Data for the Statistical section is derived from financial statements, an actuary member file, and an actuary retirement file, all prepared by IPERS. The data in the actuary files is also used by IPERS' actuaries to prepare the annual actuarial valuation. The investment data in the Statistical section is provided by Wilshire Associates Inc., IPERS' investment consultant.

Methods

IPERS uses several data extraction and statistical tools to produce the information for the Statistical section. In some cases, data is imported into Microsoft Excel for further analysis and calculations.

Assumptions

Active members are defined as those with reported wages in the last quarter of the fiscal year. Retired members and beneficiaries are those who were paid benefits in the last month of the fiscal year. Unless specifically noted, references to retirees throughout this report include beneficiaries.

Changes in Net Assets

(Dollars expressed in thousands)

Fiscal years ended June 30

	2000	2001	2002	2003	2004
Additions					
Member contributions	\$ 168,847	\$ 178,877	\$ 185,788	\$ 185,431	\$ 192,808
Employer contributions	253,271	268,315	278,683	287,523	298,924
QBA Fund contributions ^a	---	---	---	---	---
Membership credit buy-backs/buy-ins	7,295	3,847	4,983	12,031 ^e	14,903
Net investment income/(loss)	1,990,367	(989,190)	(772,386)	814,808	2,177,265
QBA income	---	---	---	---	---
Other	97	65	68	8,952 ^f	72
Total additions	2,419,877	(538,086)	(302,864)	1,308,745	2,683,972
Deductions					
Trust Fund benefits ^b	533,747	624,260	705,768	736,331	792,866
QBA Fund benefits ^c	---	---	---	---	---
Refunds	65,609 ^d	42,074	37,915	35,591	36,430
Trust Fund administrative expenses	5,866	7,264	7,581	8,041	7,960
QBA Fund administrative expenses	---	---	---	---	---
Total deductions	605,222	673,598	751,264	779,963	837,256
Change in net assets	\$1,814,655	\$(1,211,684)	\$(1,054,128)	\$ 528,782	\$1,846,716

(Continued on page 129)

^aIPERS began collecting QBA contributions in FY2006 (see Note 11, page 60).

^bA Schedule of Benefit Payments by Type of Benefit is found on page 136.

^cIPERS began paying QBA benefits in FY2006 (see Note 11, page 60).

^dLegislation passed in 1998 increased the refund payable amount for vested members effective 7/1/99. Many members delayed receiving their refund to take advantage of the legislative enhancement. Therefore, the refunds paid decreased significantly for FY1999 and increased significantly for FY2000.

^eThe volume of service purchases has fluctuated due to changes in service purchase cost methods.

^fIncrease is due to a transfer of \$8,879,964 from the Cedar Rapids Water Works Retirement System to fund accrued actuarial liabilities assumed by IPERS for participants of the system.

Changes in Net Assets (Continued)

(Dollars expressed in thousands)

Fiscal years ended June 30

	2005	2006	2007	2008	2009
Additions					
Member contributions	\$ 202,607	\$ 211,522	\$ 223,515	\$ 245,898	\$ 270,934
Employer contributions	310,843	324,656	343,063	377,397	415,301
QBA Fund contributions ^a	---	35	---	20	23
Membership credit buy-backs/buy-ins	11,217	11,275	8,026	10,875	9,301
Net investment income/(loss)	1,912,489	2,065,520	3,298,842	(338,575)	(3,863,760)
QBA income	---	1	1	---	---
Other	42	---	---	---	---
Total additions	2,437,198	2,613,009	3,873,447	295,615	(3,168,201)
Deductions					
Trust Fund benefits ^b	868,558	924,361	1,013,956	1,096,078	1,183,098
QBA Fund benefits ^c	---	17	17	20	21
Refunds	43,113	41,668	38,116	36,205	34,337
Trust Fund administrative expenses	8,215	9,321	9,060	9,884	10,896
QBA Fund administrative expenses	---	---	1	1	1
Total deductions	919,886	975,367	1,061,150	1,142,188	1,228,353
Change in net assets	\$1,517,312	\$1,637,642	\$2,812,297	\$(846,573)	\$(4,396,554)

^aIPERS began collecting QBA contributions in FY2006 (see Note 11, page 60).

^bA Schedule of Benefit Payments by Type of Benefit is found on page 136.

^cIPERS began paying QBA benefits in FY2006 (see Note 11, page 60).

^dLegislation passed in 1998 increased the refund payable amount for vested members effective 7/1/99. Many members delayed receiving their refund to take advantage of the legislative enhancement. Therefore, the refunds paid decreased significantly for FY1999 and increased significantly for FY2000.

^eThe volume of service purchases has fluctuated due to changes in service purchase cost methods.

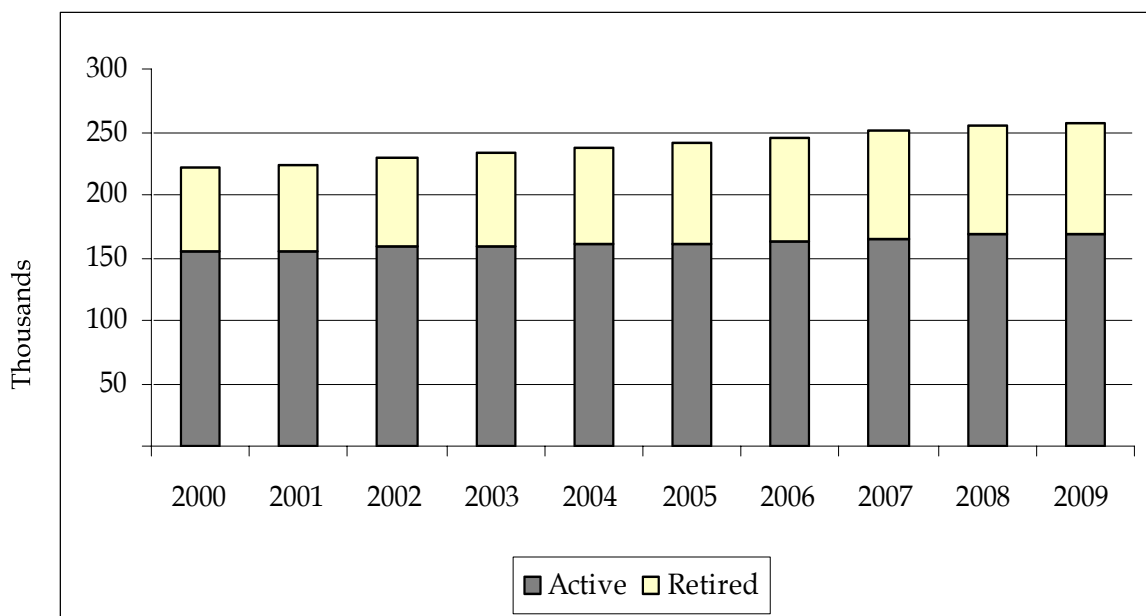
^fIncrease is due to a transfer of \$8,879,964 from the Cedar Rapids Water Works Retirement System to fund accrued actuarial liabilities assumed by IPERS for participants of the system.

Membership Summary

Special Statistics						
Fiscal years ended June 30						
Fiscal Year	Number of		Total Additions	Total Deductions	Total Investments	Total Net Assets
	Retired Members	Active Members				
2000	66,681	154,612	\$2,419,877,009	\$605,221,828	\$18,358,625,668	\$17,140,231,190
2001	68,703	154,610	(538,086,303)	673,597,721	16,854,676,024	15,928,547,166
2002	71,715	158,467	(302,863,978)	751,263,994	15,264,248,089	14,874,419,194
2003	74,336	159,353	1,308,745,027	779,963,314	17,174,920,495	15,403,200,907
2004	76,961	160,034	2,683,972,329	837,256,385	19,647,841,652	17,249,916,851
2005	79,604	160,905	2,437,197,885	919,885,957	20,990,729,636	18,767,228,779
2006	82,204	163,091	2,613,008,745	975,366,478	22,623,903,421	20,404,871,046
2007	84,949	165,241	3,873,447,126	1,061,150,226	26,605,342,485	23,217,167,946
2008	87,490	167,850	295,614,881	1,142,187,838	24,454,328,362	22,370,594,989
2009	89,852	167,717	(3,168,201,203)	1,228,353,135	18,715,729,776	17,974,040,651

IPERS Membership by Status

Fiscal years ended June 30



Membership by Group* Fiscal years ended June 30				
Fiscal Year	Regular Membership	Special Service Group 1	Special Service Group 2	Total
2002				
Active members	152,986	1,439	4,042	158,467
Inactive members	97,479	112	637	98,228
Retired members	70,896	260	559	71,715
2002 total	321,361	1,811	5,238	328,410
2003				
Active members	153,485	1,480	4,388	159,353
Inactive members	103,348	115	745	104,208
Retired members	73,602	225	509	74,336
2003 total	330,435	1,820	5,642	337,897
2004				
Active members	154,279	1,506	4,249	160,034
Inactive members	102,186	103	760	103,049
Retired members	76,097	249	615	76,961
2004 total	332,562	1,858	5,624	340,044
2005				
Active members	155,165	1,471	4,269	160,905
Inactive members	64,667	102	647	65,416
Retired members	78,587	310	707	79,604
2005 total	298,419	1,883	5,623	305,925
2006				
Active members	157,117	1,478	4,496	163,091
Inactive members	60,941	114	605	61,660
Retired members	81,083	345	776	82,204
2006 total	299,141	1,937	5,877	306,955
2007				
Active members	159,092	1,470	4,679	165,241
Inactive members	61,501	108	633	62,242
Retired members	83,666	397	886	84,949
2007 total	304,259	1,975	6,198	312,432
2008				
Active members	161,583	1,520	4,747	167,850
Inactive members	63,534	108	655	64,297
Retired members	86,072	442	976	87,490
2008 total	311,189	2,070	6,378	319,637
2009				
Active members	159,113	1,492	7,112	167,717
Inactive members	65,855	113	874	66,842
Retired members	88,074	585	1,193	89,852
2009 total	313,042	2,190	9,179	324,411

*Trend data is being accumulated for a ten-year period.

Average Benefit Payments for Retirees*								
Fiscal years ended June 30								
	Years of Credited Service							
Fiscal Year	0-5	6-10	11-15	16-20	21-25	26-30	>30	Total
2000								
Number of retirees	†	13,001	11,049	10,941	9,305	7,037	15,303	66,636
Average monthly benefit	†	\$134	\$308	\$461	\$662	\$979	\$1,325	\$652
Average final average salary	†	\$608	\$959	\$1,253	\$1,612	\$2,123	\$2,664	\$1,543
Average years of service	†	7.52	13.36	18.33	23.22	28.13	34.67	20.87
2001								
Number of retirees	†	13,317	11,201	11,057	9,654	7,422	16,014	68,665
Average monthly benefit	†	\$138	\$318	\$479	\$696	\$1,029	\$1,402	\$692
Average final average salary	†	\$661	\$1,011	\$1,302	\$1,674	\$2,186	\$2,750	\$1,615
Average years of service	†	7.51	13.36	18.35	23.24	28.17	34.64	20.98
2002								
Number of retirees	3,435	10,090	11,266	11,218	10,151	7,965	17,558	71,683
Average monthly benefit	\$75	\$165	\$330	\$502	\$737	\$1,096	\$1,538	\$760
Average final average salary	\$636	\$747	\$1,073	\$1,373	\$1,755	\$2,283	\$2,915	\$1,734
Average years of service	4.53	8.50	13.36	18.36	23.24	28.15	34.57	21.27
2003†								
Number of retirees	3,652	10,509	11,464	11,402	10,485	8,326	18,472	74,310
Average monthly benefit	\$80	\$169	\$337	\$518	\$765	\$1,139	\$1,611	\$796
Average final average salary	\$735	\$809	\$1,102	\$1,384	\$1,729	\$2,219	\$2,828	\$1,728
Average years of service	4.49	8.49	13.37	18.37	23.27	28.18	34.51	21.32
2004†								
Number of retirees	3,986	10,854	11,646	11,560	10,757	8,719	19,420	76,942
Average monthly benefit	\$83	\$174	\$342	\$536	\$794	\$1,190	\$1,688	\$833
Average final average salary	\$835	\$872	\$1,156	\$1,452	\$1,796	\$2,297	\$2,943	\$1,813
Average years of service	4.45	8.48	13.34	18.37	23.27	28.18	34.44	21.35
(Continued on page 133)								

*Where data was available, high 3-year average monthly wages were calculated by dividing the annual high 3-year average by 12. When high 3-year average wages were not obtainable, the monthly high 3-year average wages were estimated by dividing the annual annuity amount by a multiplying factor of 0.38 and then dividing by 12 (see retirement formula on page 148).

†Previously included in the 6-10 Years of Credited Service group.

‡Does not include retirees under the Iowa Old-Age and Survivors' Insurance System.

Average Benefit Payments for Retirees* (Continued)								
Fiscal years ended June 30								
	Years of Credited Service							
Fiscal Year	0-5	6-10	11-15	16-20	21-25	26-30	>30	Total
2005[‡]								
Number of retirees	4,224	11,140	11,815	11,798	11,069	9,171	20,371	79,588
Average monthly benefit	\$87	\$179	\$350	\$555	\$824	\$1,246	\$1,763	\$873
Average final average salary	\$911	\$939	\$1,211	\$1,525	\$1,868	\$2,391	\$3,041	\$1,899
Average years of service	4.45	8.48	13.35	18.38	23.28	28.19	34.41	21.42
2006[‡]								
Number of retirees	4,355	11,428	12,003	12,083	11,288	9,658	21,378	82,193
Average monthly benefit	\$92	\$185	\$360	\$573	\$858	\$1,297	\$1,832	\$914
Average final average salary	\$993	\$1,000	\$1,277	\$1,590	\$1,944	\$2,472	\$3,131	\$1,983
Average years of service	4.47	8.47	13.34	18.39	23.28	28.20	34.36	21.51
2007[‡]								
Number of retirees	4,421	11,666	12,149	12,331	11,586	10,132	22,658	84,943
Average monthly benefit	\$97	\$194	\$369	\$598	\$895	\$1,357	\$1,917	\$967
Average final average salary	\$1,077	\$1,080	\$1,335	\$1,671	\$2,029	\$2,563	\$3,241	\$2,085
Average years of service	4.48	8.46	13.33	18.41	23.27	28.21	34.33	21.67
2008[‡]								
Number of retirees	4,484	11,850	12,376	12,513	11,889	10,569	23,804	87,485
Average monthly benefit	\$103	\$201	\$380	\$621	\$932	\$1,415	\$1,993	\$1,015
Average final average salary	\$1,124	\$1,050	\$1,170	\$1,425	\$1,713	\$2,198	\$2,797	\$1,828
Average years of service	4.49	8.46	13.34	18.42	23.27	28.23	34.33	21.81
2009[‡]								
Number of retirees	4,549	12,061	12,547	12,685	12,191	10,893	24,921	89,847
Average monthly benefit	\$108	\$209	\$392	\$644	\$973	\$1,471	\$2,071	\$1,064
Average final average salary	\$1,203	\$1,130	\$1,252	\$1,521	\$1,834	\$2,318	\$2,943	\$1,948
Average years of service	4.50	8.47	13.34	18.43	23.27	28.24	34.33	21.93

*Where data was available, high 3-year average monthly wages were calculated by dividing the annual high 3-year average by 12. When high 3-year average wages were not obtainable, the monthly high 3-year average wages were estimated by dividing the annual annuity amount by a multiplying factor of 0.38 and then dividing by 12 (see retirement formula on page 148).

[†]Previously included in the 6-10 Years of Credited Service group.

[‡]Does not include retirees under the Iowa Old-Age and Survivors' Insurance System.

STATISTICAL

New Retirees by Employer Group Fiscal years ended June 30									
Fiscal Year	City	County	School	State	Utility	28E Agency	Township & Cemetery	Other	Total
2000									
Number of retirees	513	654	2,607	659	*	*	*	208	4,641
Average monthly benefit	\$714	\$745	\$1,236	\$1,180				\$998	\$1,091
Average years of service	17.53	18.29	24.38	21.75				19.28	22.16
2001									
Number of retirees	486	689	2,177	660	*	*	*	216	4,228
Average monthly benefit	\$767	\$806	\$1,181	\$1,232				\$1,133	\$1,078
Average years of service	18.35	18.25	22.86	21.75				20.61	21.29
2002									
Number of retirees	506	688	3,024	1,077	31	170	1	2	5,499
Average monthly benefit	\$911	\$884	\$1,504	\$1,626	\$1,709	\$1,385	\$453	\$409	\$1,393
Average years of service	18.94	18.42	25.24	25.45	24.95	21.54	40.25	12.37	23.73
2003									
Number of retirees	558	715	2,562	640	19	217	1	---	4,712
Average monthly benefit	\$801	\$830	\$1,278	\$1,266	\$1,426	\$1,178	\$62	---	\$1,148
Average years of service	17.51	17.63	22.38	20.21	24.68	19.17	9.00	---	20.65
2004									
Number of retirees	614	696	2,853	522	29	229	---	---	4,943
Average monthly benefit	\$926	\$809	\$1,318	\$1,248	\$1,207	\$1,064	---	---	\$1,178
Average years of service	18.60	17.00	22.20	19.17	19.96	17.08	---	---	20.45
2005									
Number of retirees	590	722	2,559	757	19	232	---	---	4,879
Average monthly benefit	\$998	\$1,031	\$1,335	\$1,560	\$1,699	\$1,282	---	---	\$1,283
Average years of service	19.01	18.97	22.19	22.04	25.59	19.38	---	---	21.18
2006									
Number of retirees	591	699	2,920	568	24	66	2	22	4,892
Average monthly benefit	\$1,051	\$1,057	\$1,445	\$1,463	\$1,160	\$633	\$1,985	\$465	\$1,328
Average years of service	19.32	19.14	23.33	21.04	19.26	13.84	29.50	11.22	21.78
2007									
Number of retirees	620	809	2,697	965	32	50	2	26	5,201
Average monthly benefit	\$1,108	\$1,190	\$1,570	\$1,936	\$1,057	\$752	\$314	\$376	\$1,506
Average years of service	19.71	20.04	23.72	24.85	18.94	14.54	6.75	8.03	22.67
2008									
Number of retirees	697	738	2,730	777	35	52	1	31	5,061
Average monthly benefit	\$1,261	\$1,119	\$1,552	\$1,901	\$1,872	\$617	\$112	\$578	\$1,489
Average years of service	20.66	19.76	23.25	23.71	24.74	13.61	6.25	12.61	22.29
2009									
Number of retirees	620	800	2,571	765	44	49	---	28	4,877
Average monthly benefit	\$1,226	\$1,241	\$1,610	\$2,067	\$1,586	\$881	---	\$467	\$1,558
Average years of service	20.62	19.69	23.34	24.40	21.46	14.51	---	11.75	22.39

*Amount included in column entitled Other.

Average Benefit Payments by Retirement Date								
For retirees as of June 30, 2009								
	Years of Credited Service							
Retirement Date	0-5	6-10	11-15	16-20	21-25	26-30	>30	Total
Prior to 1/1/76								
Number of retirees	13	80	87	60	34	22	59	355
Average monthly benefit	\$66	\$118	\$263	\$328	\$404	\$479	\$540	\$307
Average years of service	5.31	8.43	13.27	17.79	22.80	28.34	37.75	18.57
Between 1/1/76 and 6/30/82								
Number of retirees	128	442	545	431	383	291	432	2,652
Average monthly benefit	\$54	\$122	\$282	\$364	\$464	\$602	\$720	\$390
Average years of service	4.76	8.51	13.30	18.37	23.14	28.00	35.45	19.56
Between 7/1/82 and 6/30/86								
Number of retirees	178	671	806	826	601	539	805	4,426
Average monthly benefit	\$57	\$151	\$299	\$421	\$563	\$750	\$902	\$490
Average years of service	4.48	8.58	13.47	18.31	23.22	28.25	34.53	20.22
Between 7/1/86 and 6/30/90								
Number of retirees	242	1,048	1,284	1,407	1,129	747	1,768	7,625
Average monthly benefit	\$77	\$154	\$301	\$430	\$597	\$789	\$1,005	\$553
Average years of service	4.63	8.60	13.44	18.37	23.15	28.06	33.88	21.01
Between 7/1/90 and 6/30/96								
Number of retirees	663	1,964	2,463	2,644	2,575	1,868	4,084	16,261
Average monthly benefit	\$75	\$163	\$306	\$479	\$693	\$995	\$1,306	\$699
Average years of service	4.44	8.54	13.42	18.38	23.30	28.14	34.46	21.81
Between 7/1/96 and 6/30/00								
Number of retirees	672	1,959	2,073	2,074	2,171	1,958	4,809	15,716
Average monthly benefit	\$85	\$188	\$368	\$609	\$885	\$1,364	\$1,939	\$1,042
Average years of service	4.52	8.50	13.26	18.46	23.29	28.32	34.52	22.75
Between 7/1/00 and 6/30/09								
Number of retirees	2,653	5,897	5,289	5,243	5,298	5,468	12,964	42,812
Average monthly benefit	\$132	\$256	\$492	\$860	1,312	\$1,886	\$2,631	\$1,409
Average years of service	4.49	8.39	13.30	18.48	23.30	28.28	34.21	22.20
Total as of June 30, 2009								
Number of retirees	4,549	12,061	12,547	12,685	12,191	10,893	24,921	89,847
Average monthly benefit	\$108	\$209	\$392	\$644	\$973	\$1,471	\$2,071	\$1,064
Average years of service	4.50	8.47	13.34	18.43	23.27	28.24	34.33	21.93
IOASI retirees*	NA	NA	NA	NA	NA	NA	NA	5
Average monthly benefit	NA	NA	NA	NA	NA	NA	NA	\$105

*Recipients receiving benefits calculated under the Iowa Old-Age and Survivors' Insurance System (IOASI), the predecessor to IPERS.

STATISTICAL

Schedule of Benefit Payments by Type of Benefit*

Fiscal years ended June 30

Fiscal Year	Number of Retirees	Normal Retirement for Age and Service	Early Retirement	Survivor Payment (Normal, Early, or Disability Retirement)	Disability Retirement	Survivor Payment (Death in Service)	Duty Disability Retirement (Special Service Groups)	Nonduty Disability Retirement (Special Service Groups)
2003	74,336	\$570,327,217	\$ 94,103,140	\$20,009,733	\$20,963,183	\$ 469,783	\$194,138	\$153,412
2004	76,961	610,618,473	106,510,837	22,142,949	22,021,464	760,904	278,289	221,496
2005	79,604	657,249,915	125,357,178	24,084,063	24,225,454	1,060,991	317,312	261,551
2006	82,204	701,149,558	141,860,569	26,228,650	25,540,886	1,382,098	433,669	269,095
2007	84,949	758,739,140	159,904,983	28,429,483	27,449,602	1,637,857	489,088	287,504
2008	87,490	818,804,704	180,411,922	30,892,964	28,284,772	1,919,799	563,314	303,042
2009	89,852	882,890,118	197,219,959	33,554,573	28,042,167	2,323,743	584,892	304,352

*Trend data is being accumulated for a ten-year period. This table does not include lump-sum payments.

Schedule of Retired Members by Type of Benefit

As of June 30, 2009

Amount of Monthly Benefit	Number of Retirees	Normal Retirement for Age and Service	Early Retirement	Survivor Payment (Normal, Early, or Disability Retirement)	Disability Retirement	Survivor Payment (Death in Service)	Duty Disability Retirement (Special Service Groups)	Nonduty Disability Retirement (Special Service Groups)
\$ <200	15,434	8,279	5,962	652	497	44	---	---
201-400	15,732	9,157	5,071	862	620	22	---	---
401-600	10,019	5,445	3,437	620	491	26	---	---
601-800	7,430	4,105	2,417	490	383	35	---	---
801-1,000	6,445	3,968	1,765	399	299	14	---	---
1,001-1,200	4,936	3,134	1,344	205	238	15	---	---
1,201-1,400	4,027	2,588	1,092	180	149	14	1	3
1,401-1,600	3,768	2,573	899	144	127	18	2	5
1,601-1,800	3,255	2,546	539	75	81	6	4	4
1,801-2,000	3,329	2,748	419	80	65	9	7	1
2,000+	15,477	13,989	1,211	151	94	20	10	2
Totals	89,852	58,532	24,156	3,858	3,044	223	24	15

Note: The above tables do not include types of refunds because IPERS pays only one type of refund.

Retired Members by Benefit Option*

As of June 30, 2009

Amount of Monthly Benefit	Number of Retirees	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6	Misc.†
\$ <200	15,434	5,229	3,209	2,908	1,493	2,118	455	22
201-400	15,732	5,998	3,408	1,963	2,014	1,887	452	10
401-600	10,019	3,440	2,213	1,157	1,679	1,113	417	---
601-800	7,430	2,412	1,626	767	1,440	751	434	---
801-1,000	6,445	1,850	1,479	666	1,417	626	407	---
1,001-1,200	4,936	1,318	1,148	515	1,031	472	452	---
1,201-1,400	4,027	1,036	811	377	960	393	450	---
1,401-1,600	3,768	908	772	362	865	404	457	---
1,601-1,800	3,255	752	621	303	735	379	465	---
1,801-2,000	3,329	664	616	365	710	422	552	---
2,000+	15,477	2,781	2,907	2,153	2,022	1,935	3,679	---
Totals	89,852	26,388	18,810	11,536	14,366	10,500	8,220	32

*See definitions of benefit options on page 149.

†Consists of benefit options available under previous laws.

Active Membership Statistics Fiscal years ended June 30					
Fiscal Year	Total Actives	Percent Change	Average Covered Wage	Average Age (Years)	Average Service Credit (Years)
2000	153,039	0.4	\$29,032	44.8	11.6
2001	154,610	1.0	30,341	45.0	11.5
2002	158,467	2.5	32,119	45.2	11.3
2003	159,353	0.6	29,652	44.7	11.4
2004	160,034	0.4	30,605	43.9	11.5
2005	160,905	0.5	31,376	45.6	11.6
2006	163,091	1.4	33,870	44.2	11.6
2007	165,241	1.3	34,990	43.2	11.5
2008	167,850	1.6	36,529	42.2	11.5
2009	167,717	-0.1	38,390	41.4	11.7

Analysis of Change in Active Membership Fiscal years ended June 30						
Fiscal Year	Beginning Members	Additions	Retired	Died	Other Terminations	Ending Members
2000	152,440	18,698	2,139	256	15,704	153,039
2001	153,039	13,534	1,567	113	10,283	154,610
2002	154,610	19,247	3,680	138	11,572	158,467
2003	158,467	17,130	3,657	153	12,434	159,353
2004	159,353	16,715	3,450	153	12,431	160,034
2005	160,034	17,598	3,716	156	12,855	160,905
2006	160,905	18,885	3,883	154	12,662	163,091
2007	163,091	19,111	4,344	246	12,371	165,241
2008	165,241	19,943	4,237	227	12,870	167,850
2009	167,850	16,565	4,013	246	12,439	167,717

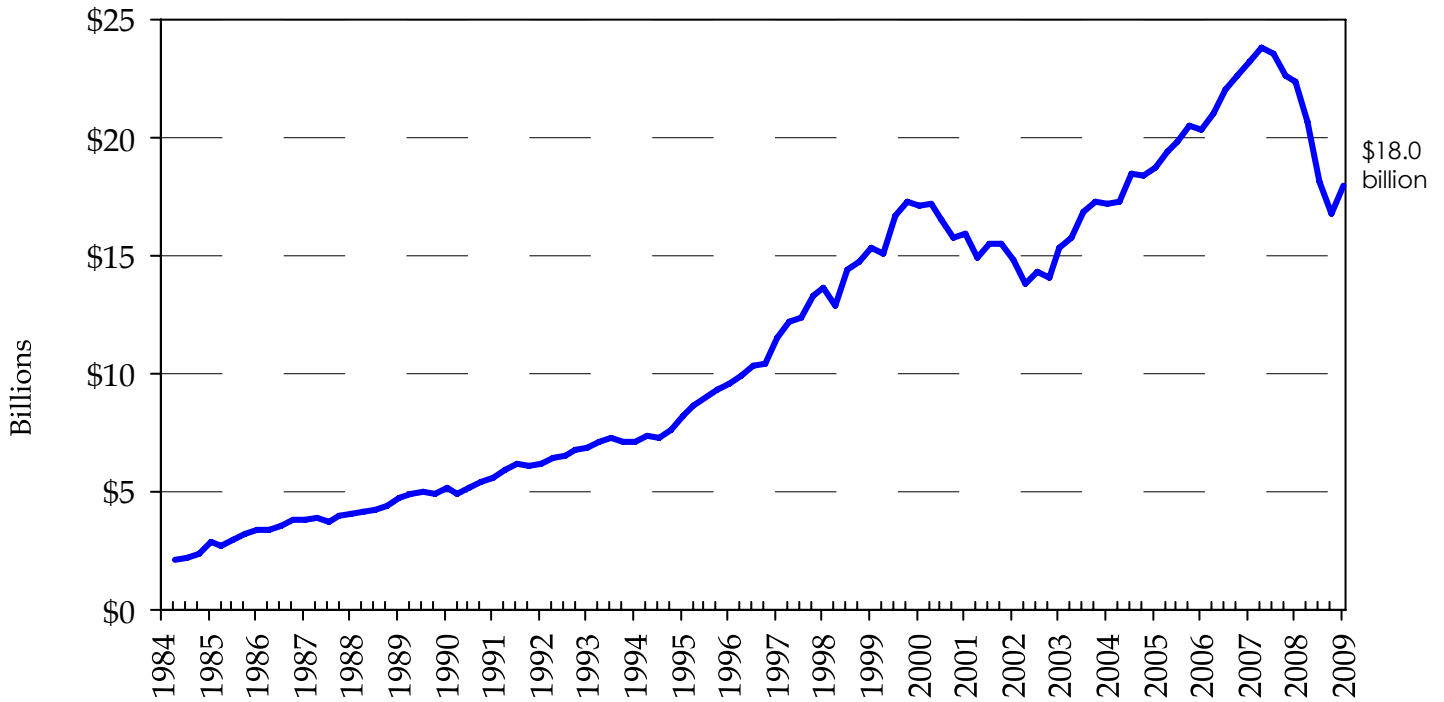
Principal Participating Employers Fiscal years ended June 30			
2009			
Participating Employer	Covered Employees	Rank	Percentage of Total System
State of Iowa Centralized Payroll	19,450	1	11.60
Des Moines Independent Community School District (CSD)	4,624	2	2.76
Cedar Rapids CSD	3,052	3	1.82
Iowa Department of Transportation	2,924	4	1.74
Davenport CSD	2,402	5	1.43
Dubuque CSD	1,909	6	1.14
Sioux City CSD	1,852	7	1.10
Iowa City CSD	1,812	8	1.08
Waterloo CSD	1,504	9	0.90
West Des Moines CSD	1,479	10	0.88
All other employers*	126,709		75.55
Total (2,241 employers)	167,717		100.00

2000			
Participating Employer	Covered Employees	Rank	Percentage of Total System
State of Iowa Centralized Payroll	19,506	1	12.62
Des Moines Independent CSD	4,180	2	2.70
Iowa Department of Transportation	3,609	3	2.33
Cedar Rapids CSD	2,989	4	1.93
Davenport CSD	2,467	5	1.60
Sioux City CSD	1,912	6	1.24
Dubuque CSD	1,584	7	1.02
Waterloo CSD	1,489	8	0.96
City of Des Moines	1,477	9	0.96
Iowa City CSD	1,450	10	0.94
All other employers	113,949		73.70
Total (2,386 employers)	154,612		100.00

*All other employers for FY2009:		
Type	Number	Employees
City	1,163	24,272
County	415	26,129
School	385	67,549
State	23	3,373
28E Agencies	68	2,005
Utilities	134	1,673
Other	43	1,708
Total	2,231	126,709

Growth of Net Investment Portfolio Assets

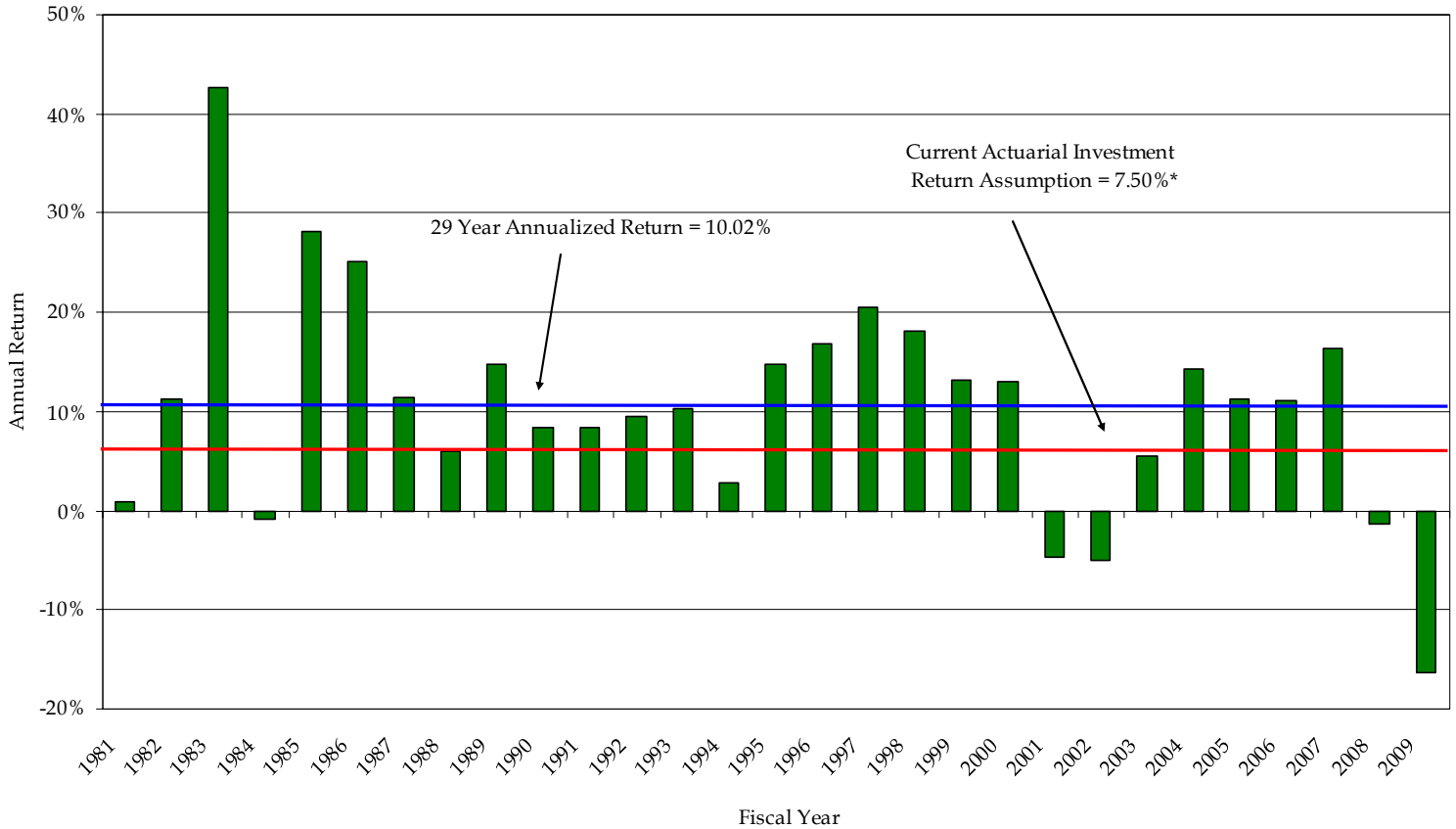
Fiscal years ended June 30



Asset values above are net of the periodic withdrawals made since FY1997 to provide partial funding for IPERS' expenses (retirement benefit payments, refunds, and administrative expenses).

Investment Returns 1981-2009

Fiscal years ended June 30



*Actuarial interest rate assumption:
 1953-1993: 6.50 %
 1994-1995: 6.75 %
 1996-present: 7.50%

ANNUALIZED RETURNS*			
1-Year Return:	-16.27%	10-Year Return:	3.91%
3-Year Return:	-1.33%	15-Year Return:	8.00%
5-Year Return:	3.50%	20-Year Return:	7.96%
*For periods ending 6/30/09			





PLAN SUMMARY

Composition

Membership

Buy-Backs/Buy-Ins

Contributions

Vesting

Refunds

Benefits

Distribution of IPERS Benefit Payments
in Iowa Counties

Benefit Payments Summary

Distribution of IPERS Benefit Payments
by State



Composition

Membership

Fiscal years ended June 30

	2009	2008
Retired members		
All retired members	89,852	87,490
Average years of service	22	22
Average monthly benefit	\$1,064	\$996
Fiscal year member retirements	4,877	5,061
Average years of service	22	22
Average monthly benefit	\$1,558	\$1,489
Retired reemployed*	8,451	8,547
Active members	167,717	167,850
Inactive vested	32,297	31,246
Inactive nonvested	34,545	33,051
Total	324,411	319,637

*The number of retired reemployed members includes all retirees who have at any time returned to covered employment but have not subsequently requested a refund or a benefit recalculation. These members are also included in the number of retired members.

Employers

Fiscal years ended June 30

Employer Type	2009		2008	
	Number of Entities	Covered Wages	Number of Entities	Covered Wages
City	1,163	\$ 823,889,012	1,184	\$ 783,383,029
County	415	996,237,316	412	953,919,296
School	393	3,127,540,499	395	2,982,720,489
State	25	1,321,028,896	25	1,253,082,922
28E agencies	68	54,342,364	66	50,279,458
Utilities	134	76,075,351	133	72,082,183
Other	43	39,529,686	44	35,977,990
Total	2,241	\$6,438,643,124	2,259	\$6,131,445,367

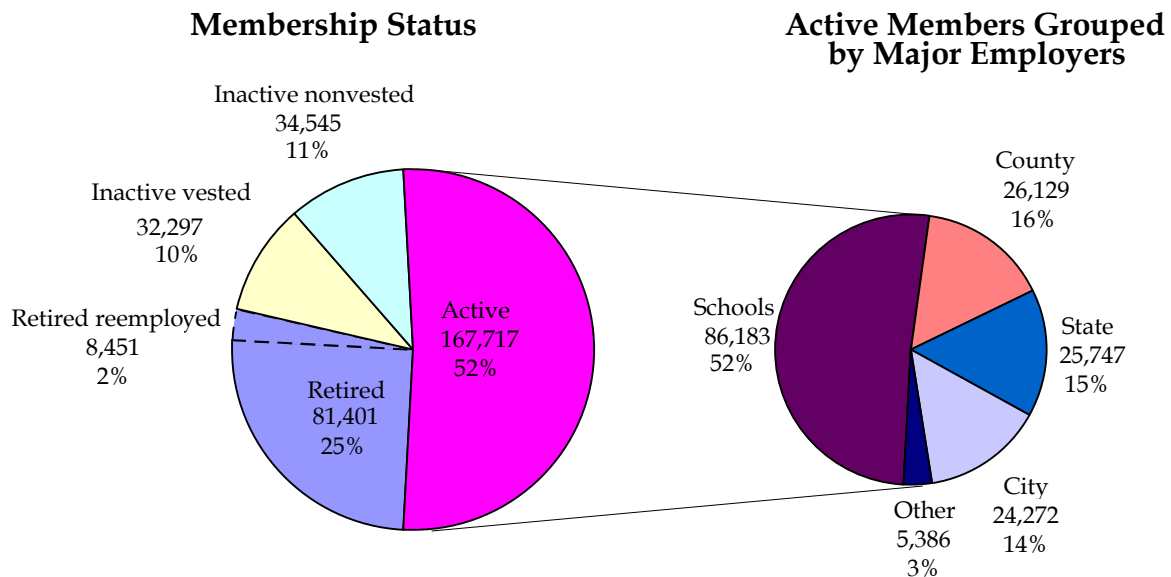
Membership

Participation in IPERS is mandatory for most employees of the State of Iowa and its political subdivisions, including public school systems. Exceptions include those employees covered by another retirement system, other than Social Security, supported in whole or in part by public contributions. Membership is optional for the members of the Iowa General Assembly and certain other individuals.

At June 30, 2009, there were 167,717 members actively contributing to the System, employed by 2,241 public employers. The number of active members decreased by 0.08 percent from June 30, 2008. The membership profile chart provides further information on the composition of the membership for fiscal year 2009.

Membership Profile

June 30, 2009



Buy-Backs/Buy-Ins

Under certain circumstances, members may restore (buy-back) previously refunded member service or may purchase (buy-in) IPERS service credit for employment elsewhere. The cost of purchasing service is determined by the System's actuary. There are federal limitations on how much service credit a member may purchase annually.

Contributions

IPERS accumulates the resources necessary to meet its responsibilities by collecting mandatory contributions from employees and employers and investing those funds. Contributions continue throughout covered employment. The majority of employers contributed at a rate of 6.35 percent and employees at a rate of 4.10 percent for FY2009. Certain employers and employees in Special Service occupations contribute at annually adjusted, actuarially determined rates. The table "Contribution Rates & Maximum Covered Wages" below reflects the contribution rates for employers and employees in effect during fiscal year 2009.

Contribution Rates & Maximum Covered Wages				
Fiscal year 2009				
IPERS	Employee Rate	Employer Rate	Total Rate	Maximum Covered Wages: Calendar Year
Regular Membership	4.10%	6.35%	10.45%	2008: \$230,000 2009: \$245,000 [‡]
Special Service Group 1*	7.52%	7.52%	15.04%	2008: \$230,000 2009: \$245,000 [‡]
Special Service Group 2 [†]	5.63%	8.45%	14.08%	

*Sheriffs and deputies.

[†]All other protection occupation members.

[‡]Internal Revenue Code (IRC) section 401(a)(17) compensation limit.

Vesting

A member who completes four years of covered service or has attained the age of 55 while making contributions to the plan has vested rights to IPERS benefits. There were 160,301 vested members at June 30, 2009.

Refunds

An IPERS member who terminates public employment for any reason may request a full refund of the member's accumulated contributions. Vested members requesting a refund also receive a portion of their accumulated employer contributions. Acceptance of the refund automatically terminates IPERS membership and all claims to future benefits. Member and employer refunds paid in fiscal year 2009 totaled \$34,337,453.

Benefits

IPERS regular members are eligible for retirement benefits if they are vested, no longer working for an IPERS-covered employer, and meet one of these conditions:

- Attain age 55.
- Retire because of a disability and receive social security disability or railroad retirement disability benefits.

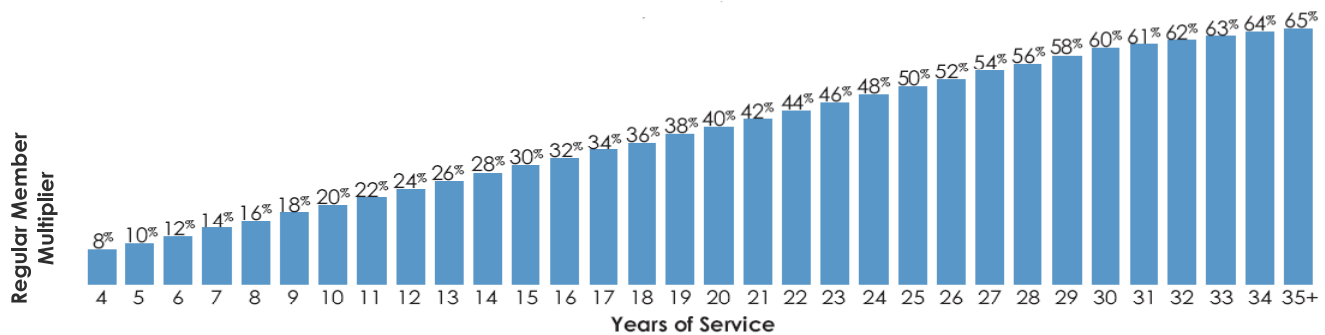
Members who are age 70 and still actively working for an IPERS-covered employer may apply to begin receiving IPERS retirement benefits while still employed.

Members are vested when they meet one of these conditions:

- Complete 4 years of service.
- Reach age 55 while making contributions to the plan.

The formula used to calculate the IPERS benefit includes:

- A formula multiplier (based on years of service).
- Highest 3-year average salary.
- Age at retirement (the benefit is reduced if it is received before normal retirement age).



If a member receives benefits before normal retirement age, the benefits are reduced 0.25 percent for each month (or 3 percent per year) that the member receives benefits before the member would have attained normal retirement age.

Normal retirement age for regular members is:

- Age 65.
- Age 62 with 20 or more years of covered employment.
- When years of service plus age at last birthday equals or exceeds 88.

The monthly IPERS benefit check for all retirees at the end of the fiscal year averaged \$1,064. For members retiring in fiscal year 2009, the average benefit was \$1,558. The average member retired with approximately 22 years of service.

Benefit Options

Upon retirement, an IPERS member may choose from six benefit options. Each of the six options provides a lifetime benefit for the IPERS member. The amount of the member's benefits and the amount and availability of death benefits vary according to the option selected.

OPTION 1. A member receives a lifetime monthly benefit. At retirement, the member specifies a lump-sum death benefit amount, in an increment of \$1,000, to be paid to a designated beneficiary upon the death of the member. The death benefit cannot exceed the member's accumulated contributions. The death benefit cannot lower the monthly benefit as calculated under Option 2 by more than 50 percent.

OPTION 2. A member receives a lifetime monthly benefit. When the member dies, the designated beneficiary receives a lump-sum refund of the excess, if any, of the member's accumulated contributions minus the amount of all retirement benefits paid to the member prior to death.

OPTION 3. A member receives the maximum lifetime monthly benefit. No payment is made to a beneficiary upon the member's death.

OPTION 4. A member receives a lifetime monthly benefit actuarially reduced to provide for a lifetime monthly benefit to the contingent annuitant upon the member's death. The age of the contingent annuitant can affect the cost of the lifetime payments to the member based on actuarial tables. The contingent annuitant can receive 100 percent, 75 percent, 50 percent, or 25 percent of the member's monthly benefit. This amount is subject to restriction if the contingent annuitant is not the member's opposite-sex spouse and is more than ten years younger than the member.

OPTION 5. A member receives a lifetime benefit with a ten-year guarantee. If the member dies before ten full years have passed (120 monthly payments are made), the member's designated beneficiary will receive a monthly benefit for the remainder of the ten years. If the beneficiary should die before the ten years expire, the beneficiary's estate will receive a commuted lump-sum settlement. If the member designates more than one beneficiary, payments will be made in a lump sum only. Members who have attained age 90 as of the first month of entitlement are not allowed to select this option.

OPTION 6. The member receives a reduced monthly benefit so that a lifetime monthly benefit may be provided after the member's death to the person named by the member as the contingent annuitant. In addition, the monthly amounts are reduced to pay for a pop-up feature. The pop-up feature provides that if the contingent annuitant dies before the member, the member's benefit will pop back up to what it would have been under IPERS Option 2, and death benefits may be payable to the member's designated beneficiary if certain conditions are met.

PLAN SUMMARY

Retired Membership by Benefit Option						
As of June 30, 2009						
	Number	Percent			Number	Percent
Option 1	26,388	29		Option 5	10,500	12
Option 2	18,810	21		Option 6 (100%)	3,933	4
Option 3	11,536	13		Option 6 (75%)	1,293	1
Option 4 (100%)	9,490	11		Option 6 (50%)	1,744	2
Option 4 (75%)	1,265	1		Option 6 (25%)	1,250	1
Option 4 (50%)	2,588	3		Misc. options	32	Less than 1
Option 4 (25%)	1,023	1		Total all options	89,852	

Dividend Payments

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, certain lump-sum dividend payments are authorized. For retirees who began receiving benefits prior to July 1990, a guaranteed dividend is included with a member's regular November benefit payment. Post-June 1990 retirees may receive a Favorable Experience Dividend (FED) with their January benefit payment. The FED payment is based upon the actuarial soundness of the System along with the retiree's annual benefit and number of years retired. FED payments are not guaranteed. The November 2008 dividends totaled \$12,613,373 and the January 2009 FEDs totaled \$68,463,353.

Death Benefits

A. Preretirement Death Benefits—If an IPERS member dies before retirement, the member's designated beneficiary may receive a lump-sum cash payment based on the greater of the following two formulas:

1. Death benefit = The actuarial present value of the member's accrued benefit as of date of death.

2. Death benefit = $\frac{\text{Member's accumulated contributions}}{\text{Member's highest year of covered wage}} \times \frac{\text{Years of membership service}}{30 \text{ years}^*}$

*The denominator is 22 for all Special Service occupations.

If the member's designated beneficiary is a sole individual, the beneficiary will be offered the choice between receiving a lump sum or a lifetime annuity.

B. Postretirement Death Benefits—If an IPERS member dies after retirement, payment is made to the beneficiary according to the option selected by the member at the time of retirement.

C. For fiscal year 2009, lump-sum death benefits paid to beneficiaries or to the estates of deceased nonretired and retired members totaled \$20,541,392.

PLAN SUMMARY

Distribution of IPERS Benefit Payments in Iowa Counties*

In fiscal year 2009

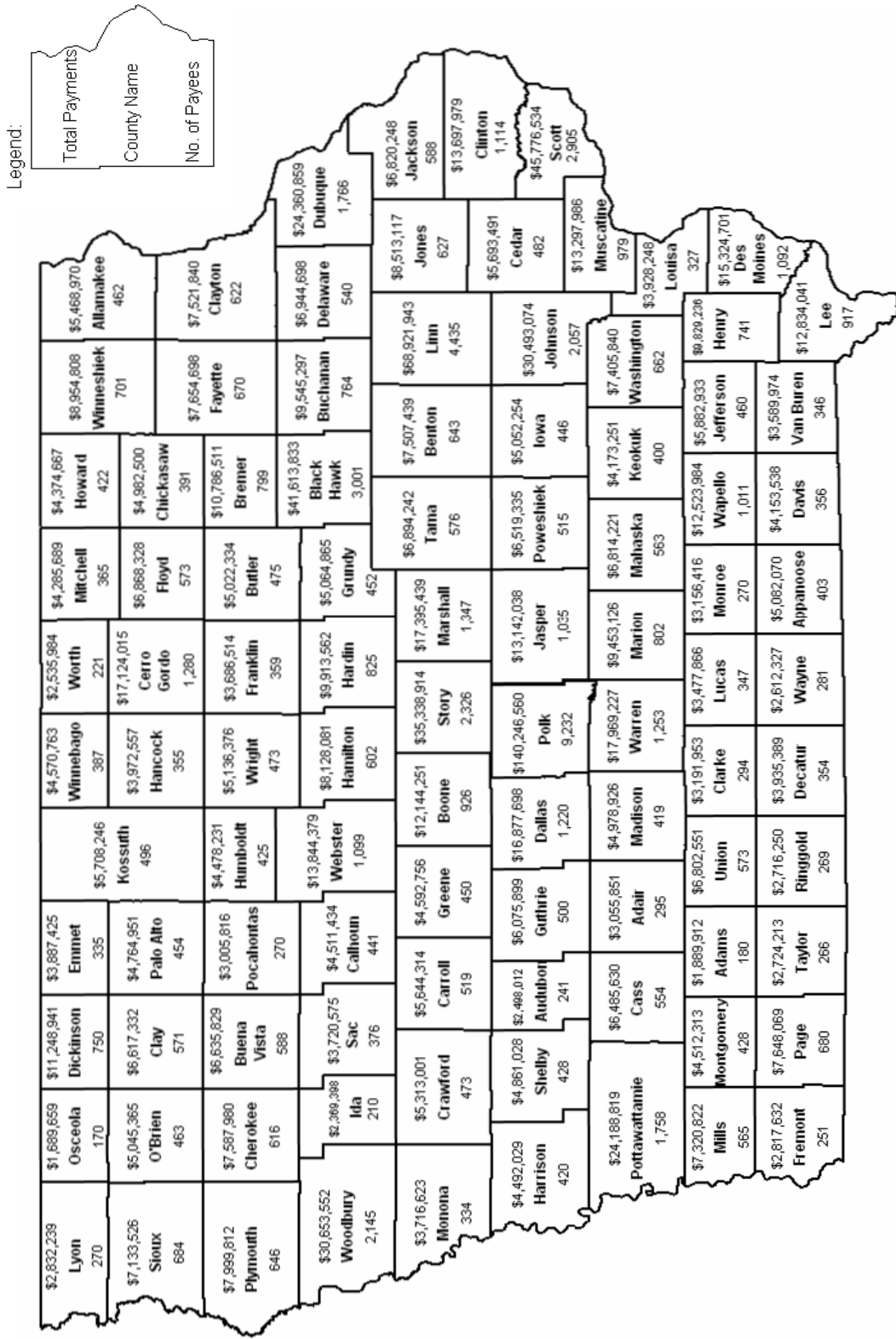
County	Amount	Annual Average	Payees	County	Amount	Annual Average	Payees
Adair	\$ 3,055,851	\$ 10,359	295	Jefferson	\$ 5,882,933	\$12,789	460
Adams	1,889,912	10,500	180	Johnson	30,493,074	14,824	2,057
Allamakee	5,468,970	11,838	462	Jones	8,513,117	13,578	627
Appanoose	5,082,070	12,611	403	Keokuk	4,173,251	10,433	400
Audubon	2,498,012	10,365	241	Kossuth	5,708,246	11,509	496
Benton	7,507,439	11,676	643	Lee	12,834,041	13,996	917
Black Hawk	41,613,833	13,867	3,001	Linn	68,921,943	15,540	4,435
Boone	12,144,251	13,115	926	Louisa	3,928,248	12,013	327
Bremer	10,786,511	13,500	799	Lucas	3,477,866	10,023	347
Buchanan	9,545,297	12,494	764	Lyon	2,832,239	10,490	270
Buena Vista	6,635,829	11,285	588	Madison	4,978,926	11,883	419
Butler	5,022,334	10,573	475	Mahaska	6,814,221	12,103	563
Calhoun	4,511,434	10,230	441	Marion	9,453,126	11,787	802
Carroll	5,644,314	10,875	519	Marshall	17,395,439	12,914	1,347
Cass	6,485,630	11,707	554	Mills	7,320,822	12,957	565
Cedar	5,693,491	11,812	482	Mitchell	4,285,689	11,742	365
Cerro Gordo	17,124,015	13,378	1,280	Monona	3,716,623	11,128	334
Cherokee	7,587,980	12,318	616	Monroe	3,156,416	11,690	270
Chickasaw	4,982,500	12,743	391	Montgomery	4,512,313	10,543	428
Clarke	3,191,953	10,857	294	Muscatine	13,297,986	13,583	979
Clay	6,617,332	11,589	571	O'Brien	5,045,365	10,897	463
Clayton	7,521,840	12,093	622	Osceola	1,689,659	9,939	170
Clinton	13,697,979	12,296	1,114	Page	7,648,069	11,247	680
Crawford	5,313,001	11,233	473	Palo Alto	4,764,951	10,495	454
Dallas	16,877,698	13,834	1,220	Plymouth	7,999,812	12,384	646
Davis	4,153,538	11,667	356	Pocahontas	3,005,816	11,133	270
Decatur	3,935,389	11,117	354	Polk	140,246,560	15,191	9,232
Delaware	6,944,698	12,861	540	Pottawattamie	24,188,819	13,759	1,758
Des Moines	15,324,701	14,034	1,092	Poweshiek	6,519,335	12,659	515
Dickinson	11,248,941	14,999	750	Ringgold	2,716,250	10,098	269
Dubuque	24,360,859	13,794	1,766	Sac	3,720,575	9,895	376
Emmet	3,887,425	11,604	335	Scott	45,776,534	15,758	2,905
Fayette	7,654,698	11,425	670	Shelby	4,861,028	11,358	428
Floyd	6,868,328	11,987	573	Sioux	7,133,526	10,429	684
Franklin	3,686,514	10,269	359	Story	35,338,914	15,193	2,326
Fremont	2,817,632	11,226	251	Tama	6,894,242	11,969	576
Greene	4,592,756	10,206	450	Taylor	2,724,213	10,241	266
Grundy	5,064,865	11,205	452	Union	6,802,551	11,872	573
Guthrie	6,075,899	12,152	500	Van Buren	3,589,974	10,376	346
Hamilton	8,128,081	13,502	602	Wapello	12,523,984	12,388	1,011
Hancock	3,972,557	11,190	355	Warren	17,969,227	14,341	1,253
Hardin	9,913,562	12,016	825	Washington	7,405,840	11,187	662
Harrison	4,492,029	10,695	420	Wayne	2,612,327	9,297	281
Henry	9,829,236	13,265	741	Webster	13,844,379	12,597	1,099
Howard	4,374,667	10,367	422	Winnebago	4,570,763	11,811	387
Humboldt	4,478,231	10,537	425	Winneshiek	8,954,808	12,774	701
Ida	2,369,398	11,283	210	Woodbury	30,653,552	14,291	2,145
Iowa	5,052,254	11,328	446	Worth	2,535,984	11,475	221
Jackson	6,820,248	11,599	588	Wright	5,136,376	10,859	473
Jasper	13,142,038	12,698	1,035				

Total Iowa Benefit Payments: \$1,044,257,972

*Payments determined by zip code.

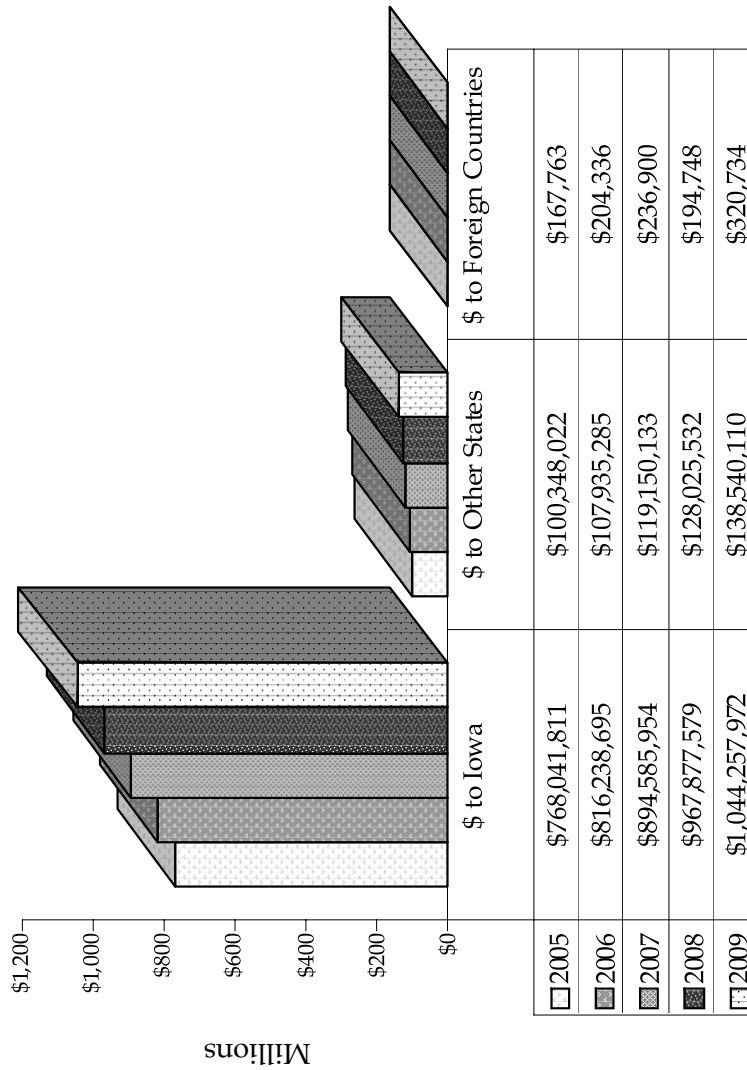
Distribution of IPERS Benefit Payments in Iowa Counties

In fiscal year 2009



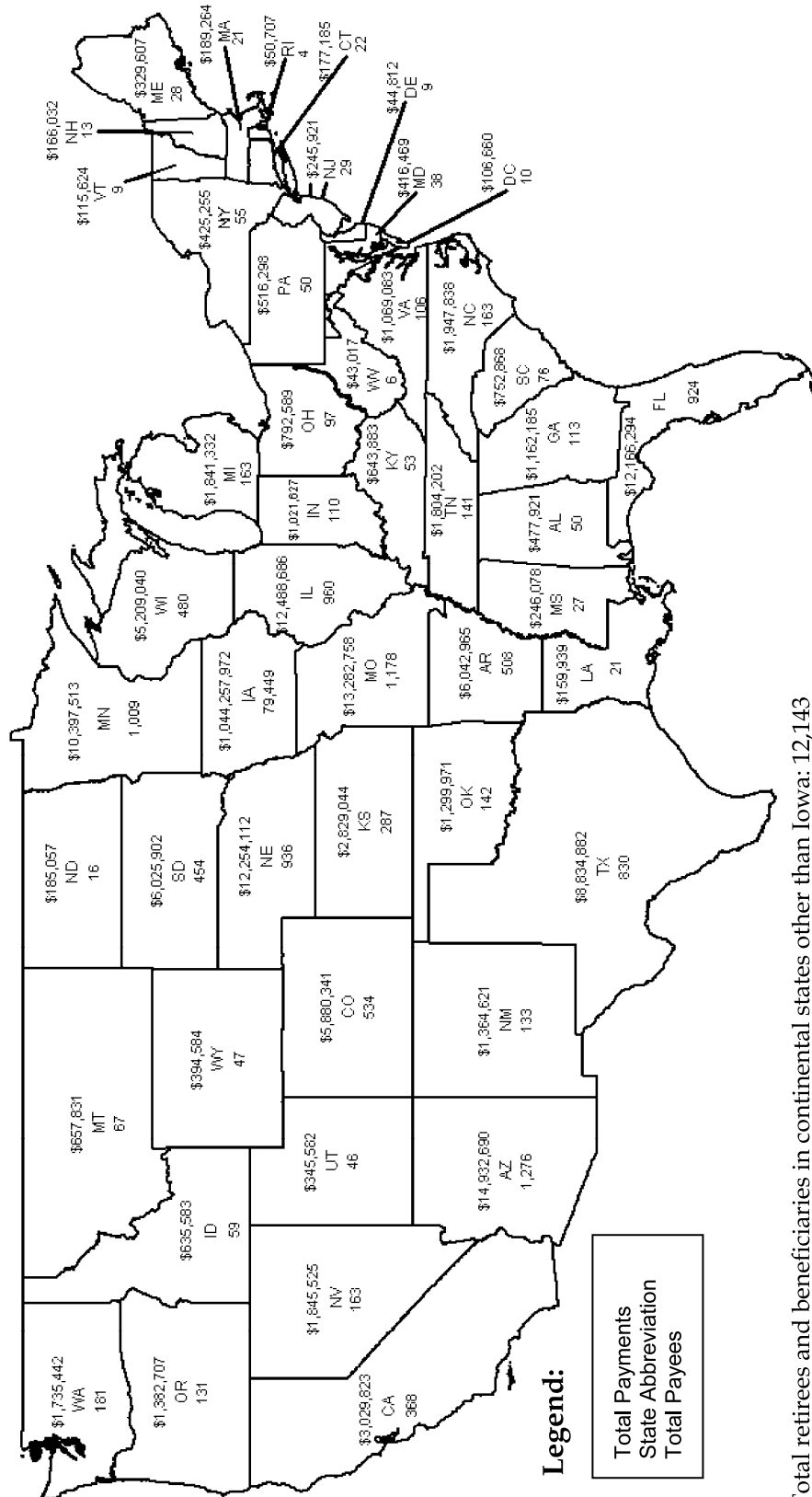
Benefit Payments Summary

Fiscal years ended June 30



Distribution of IPERS Benefit Payments by State

In fiscal year 2009



Legend:

Total Payments
State Abbreviation
Total Payees

Total retirees and beneficiaries in continental states other than Iowa: 12,143
Recipients outside the continental U.S.:

Alaska: 17	China: 1	Japan: 1	Philippines: 1
Hawaii: 21	Czech Republic: 1	Mexico: 1	South Korea: 1
Armed Forces Europe: 7	France: 2	Northern Mariana Islands: 1	Sweden: 1
Australia: 3	Germany: 2	Netherlands: 1	Thailand: 1
Canada: 11	Indonesia: 1	Norway: 1	United Kingdom: 1

The background of the entire page is a topographic map with contour lines. The top half of the page is white with light blue contour lines, while the bottom half is a solid blue color with the same contour lines in a lighter shade.

www.ipers.org

ADDRESS
7401 Register Drive P.O. Box 9117
Des Moines, IA 50306-9117

E-MAIL
info@ipers.org

PHONE
515-281-0020

TOLL-FREE
1-800-622-3849

BENEFITS FAX
515-281-0053

OPERATIONS FAX
515-281-0055

LEGAL & INVESTMENTS
MANAGEMENT FAX
515-281-0045

IPERS



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Members of the Iowa Public Employees' Retirement System Investment Board:

We have audited the financial statements of the Iowa Public Employees' Retirement System (IPERS) as of and for the year ended June 30, 2009, and have issued our report thereon dated December 2, 2009 under separate cover. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered IPERS' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of IPERS' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of IPERS' internal control over financial reporting.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects IPERS' ability to initiate, authorize, record, process or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of IPERS' financial statements that is more than inconsequential will not be prevented or detected by IPERS' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by IPERS' internal control.

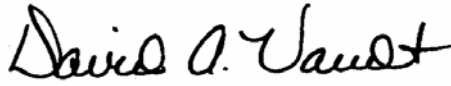
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether IPERS' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

This report, a public record by law, is intended solely for the information and use of the officials and employees of IPERS, citizens of the State of Iowa and other parties to whom IPERS may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of IPERS during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 2, 2009